Unemployment
Why has the EC been hit so hard?
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FT NEWSPAPER OF THE YEAR

FINANCIAL TIMES

Europe's Business Newspaper THURSDAY DECEMBER 17 1992

US calls for more aggressive moves against Serbs

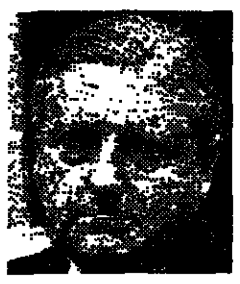
The US called for "more aggressive measures" by the international community against the Bosnian Serbs, but France and Britain opposed military intervention in the Bosnian conflict.

They supported interception and, if necessary, destruction of Serb aircraft which violated the United Nations Security Council's ban on flights over Bosnia. The US sought pre-emptive bombing of Serb targets to halt the slaughter of Bosnian Moslems, French junior foreign minister Georges Kiejman said in Paris. Page 16

OECD's 'sombre' view: A weak recovery was forecast by the Organisation for Economic Co-operation and Development for the industrialised world next year. Short-term prospects for growth were "relatively sombre". Page 16; Details, Page 6; Editorial Comment, Page 14; Samuel Brittan, Page 15

Ofgas, UK gas industry regulator, demanded the break-up of British Gas, dominant supplier, into two businesses to bring effective competition to the gas market. Page 7

Troops 'off Ulster streets' pledge



Troops would be pulled off the streets of Ulster if the Provisional IRA ended its terror campaign, Northern Ireland secretary Sir Patrick Mayhew said. In London, the IRA claimed responsibility for two bombs which exploded in the Oxford Street area causing four injuries. Report and picture, Page 8

Japan's bank reform hold-up: Japan's banks are likely to be restricted to the sale and underwriting of bonds in an effort to allow ailing brokerages a chance to recover from the Tokyo market collapse. Page 16

Sunday trade turmoil: The European Court of Justice threw the retail trade in England and Wales into confusion when it ruled that laws regulating Sunday trading did not clash with European laws and could be enforced. Page 7

Hillsdown's Solomon to quit: Former UK defence secretary Sir John Nott is to be executive chairman of diversified food group Hillsdown Holdings from next April after Sir Harry Solomon announced he was stepping aside. Page 22; Lex, Page 16

Plea for new trial: A US judge has overturned a $338m jury award brought by Standard Chartered against Price Waterhouse, the accountancy firm, in a move that paves the way for a new trial next spring. Negligence was alleged by PW over audits of an Arizona bank owned by Standard Chartered.

Owners Abroad links with Thomas Cook: Second largest UK tour operator Owners Abroad announced a link with Thomas Cook Group and its German parent, LTU Group. Page 22; Lex, Page 16

Suez, French industrial and financial group with extensive property holdings, has pumped FFr2.36bn ($430m) of new capital into Indosuez and Credisuez, two banking subsidiaries, because of the weakness of the property sector. Page 17

Boost for Baidoa aid effort: US Marines and French legionnaires started escorting food convoys and relief workers battling hunger after moving into Baidoa, Somali town at the centre of the starvation zone. Page 4

Japan to cut defence spending: Tokyo is close to cutting defence spending for the first time since the second world war, as part of next year's budget due within 10 days. Page 4

Egypt reassures tourists: Egyptian president Hosni Mubarak, trying to reassure tourists worried about attacks by Moslem militants, said security forces had crushed the movement. A British tourist was killed recently and five Germans injured.

Osman loses extradition battle: Former Bumiputra Malaysia Finance Corporation chairman Lorrain Osman was extradited to Hong Kong on fraud conspiracy and other charges. He had been held in the UK for seven years – the longest remand in British legal history. Page 4

Khmer Rouge grabs peacekeepers: Khmer Rouge guerrillas have taken 21 UN peacekeepers hostage in central Cambodia, the UN said. Negotiations for their release are under way. Page 4

■ STOCK MARKET INDICES		
FT-SE 100:	2,782.8	(+14.9)
Yield	4.48	
FT-SE Eurotrack 100	1,036.62	(−1.52)
FT-A All-Share	1,383.34	(+0.6%)
Nikkei	17,288.71	(−212.03)
New York: lunchtime		
Dow Jones Ind Ave	3,277.61	(−6.75)
S&P Composite	433.16	(+0.59)
■ US LUNCHTIME RATES		
Federal Funds:	3%	
3-mo Treas Bills: Yld	3.271%	
Long Bond	102 2/32	
Yield	7.426%	
■ LONDON MONEY		
3-mo Interbank	7 3/16 %	(7 1/4 %)
Liffe long gilt future:	Dec 100 13/32	(Dec100 1/4)
■ NORTH SEA OIL (Argus)		
Brent 15-day (Feb)	$18.25	(17.95)
■ Gold		
New York Comex (Dec)	$337.9	(334.5)
London	$337.85	(335.05)

■ STERLING		
New York lunchtime:		
$	1.5766	
London:		
$	1.577	(1.568)
DM	2.4525	(2.4575)
FFr	8.3825	(8.4)
SFr	2.2825	(2.21)
Y	193.75	(194.5)
£ Index	80.5	(80.4)
■ DOLLAR		
New York lunchtime:		
DM	1.554	
FFr	5.3185	
SFr	1.3965	
Y	122.93	
London:		
DM	1.555	(1.567)
FFr	5.315	(5.3575)
SFr	1.387	(1.4095)
Y	122.8	(124.05)
$ Index	64.7	(65.0)
Tokyo close Y 123.87		

Austria	Sch30	Greece	Dr250	Lux	LFr60	Qatar	QR12.00		
Bahrain	Din1.250	Hungary	Ft162	Malta	Lm0.50	S.Arabia	SR11		
Belgium	BFr60	Iceland	IKr180	Morocco	MDh13	Singapore	S$4.10		
Bulgaria	Lv25	India	Rs20	Neth	Fl 3.50	Spain	Pta200		
Cyprus	C£1.00	Indonesia	Rp3800	Nigeria	Naira20	Sweden	SKr14		
Czech	Kcs35	Israel	Shk5.50	Norway	NKr15.00	Switz	SFr3.00		
Denmark	DKr14	Italy	L2500	Oman	OR1.50	Syria	SyP50.00		
Egypt	E£4.50	Jordan	JD1.50	Pakistan	Rs35	Thailand	Bht60		
Finland	FM12	Korea	Won 2500	Philippines	Pso45	Tunisia	Din1.250		
France	FFr8.50	Kuwait	Fils.600	Poland	Zl 22,000	Turkey	L6000		
Germany	DM3.30	Lebanon	US$1.25	Portugal	Es190	UAE	Dh10.00		

10,000 jobs to go before end of 1993 in blow to European car industry

Ford Europe to cut 11% of jobs

By Kevin Done, Motor Industry Correspondent, in London

FORD, the US carmaker, is to reduce the workforce of its European automotive operations by 11 per cent, cutting more than 10,000 jobs by the end of 1993 in a further heavy blow to the European motor industry.

The sharpest cuts will be made in the UK, where the workforce has already been more than halved in the last decade, and in Germany, as part of restructuring moves aimed at staunching Ford of Europe's mounting losses.

Car and truckmakers in Europe are coming under increasing pressure from declining sales, overcapacity and intensifying competition from Japanese carmakers.

In further moves yesterday:

● Volkswagen, the leader of the west European car market, said it had fallen into loss in the last quarter of this year. VW is expected to announce soon another round of restructuring, including job cuts, and warned it would have to impose extensive short-time working at its plants in Germany and in Belgium in 1993.

● Renault Véhicules Industriels, the loss-making French commercial vehicle maker, said it was planning to cut 1,348 jobs, or 8 per cent of its workforce, in France.

● The Japanese challenge intensified as Toyota, the leading Japanese car producer, officially opened its first European car plant in the UK at Burnaston near Derby. Toyota, which has followed Nissan and Honda by locating its first European car plant in the UK, is investing £840m ($1.277bn) in car and engine plants in Britain with a capacity to produce 200,000 cars a year by 1997 with an eventual workforce of 3,300.

Ford said it planned to reduce the workforce of its European automotive operations, excluding Jaguar, to 83,000 by the end of 1993 from a present level of 93,000. The workforce has already been cut by 19 per cent from 115,000 in 1990.

About 80 per cent of the latest job cuts will be made in the UK and Germany, with each operation equally affected. The salaried workforce in Europe will be reduced by 14.5 per cent from 17,550 to 15,000 by mid-1993, while the hourly-paid workforce will be reduced from 75,200 to 68,000 by the end of 1993.

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■ Ford background	Page 17
■ Citroën banks on new model	
■ VW plans more cuts	Page 20
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Some 1,180 hourly-paid jobs in the UK and 1,500 in Germany are to be eliminated before April as a result of production capacity cuts, the rest are to be eliminated through improved efficiency measures by the end of 1993.

Around 1,200 salaried jobs are to be cut in the UK, mainly at Ford's Dunton engineering operations and the Warley headquarters, both in Essex. A further 1,000 salaried jobs in the UK have already been eliminated by using excess volunteers to the earlier redundancy programme launched in September. Some 1,550 salaried jobs will be cut in Germany, mainly in Cologne.

Ford's UK workforce has already fallen from a peak of 80,000 in early 1980 to only 33,000 by the end of 1992, an average reduction of over 3,600 a year.

With new car sales forecast to decline further next year, Ford is cutting its production capacity sharply in the UK and in Germany. Capacity is being increased at Genk in Belgium for production of a new model, while Valencia in Spain, Ford's most cost-effective plant in Europe, largely escapes the cuts.

Production of Fiestas and Scorpios at Cologne will be cut by 23 per cent to 1,020 cars a day, while Fiesta output at Dagenham in the UK will be reduced by 18 per cent to 740 a day. Capacity will also be reduced at Halewood in the UK and Saarlouis in Germany.

Further cuts in the workforce will follow in later years as a result of measures announced yesterday, including the transfer of some in-house component operations to outside suppliers.

Mr Bill Fike, president of Ford of Europe, said that the company would concentrate on the design, manufacture and sale of cars and light commercial vehicles. The engineering of components for vehicle systems would be eliminated as would manufacturing of some "non-core items".

As a first move, Ford said it planned to stop making seats for its next generation Fiesta and Escort/Orion models. From late 1994, their seats will be engineered and produced by a new joint venture company to be formed by Johnson Controls and Bertrand Faure, the US and French groups.

The decision to buy seats from an outside supplier will cut a further 1,354 hourly-paid jobs in Europe – 480 from Dagenham and Halewood and 874 from Cologne, Saarlouis and Valencia.

Ford's European operations have collapsed into loss in the second half of this year after struggling back into profit in the first six months.

The European automotive operations suffered a loss of $479m in the third quarter.

French banks lift base rates to 10%

By Alice Rawsthorn in Paris and James Blitz in London

FRANCE'S main commercial banks raised their base rates by more than half a percentage point to 10 per cent yesterday, in the wake of the intense pressure on the franc on the foreign exchanges.

The increase sets back government hopes of stimulating the economy by restraining interest rates.

Société Générale, the largest French commercial bank, led the way by announcing a 0.5 percentage point increase in mid-afternoon. This move was quickly followed by several of the other state-owned banks.

The base rate increases were triggered by recent sharp rises in short term rates on the French money markets, which have accompanied the Bank of France's attempts to stave off attacks on the French currency.

The franc yesterday remained weak against the D-Mark on the foreign exchanges, and some dealers said that there had been a striking deterioration in sentiment towards the French currency in recent days. There was strong speculation that the French authorities may be forced to raise their official interest rates to ward off further speculative attacks on the currency.

The announcement of the base rate rise produced an immediate fall in the Paris stock market. The CAC-40 Index ended the day 0.46 per cent lower at 1,736.69.

The increase in base rates comes at a critical time for the French economy, which has already slowed down this year because of the impact of high real interest rates on confidence.

"Psychologically the base rate rise is a blow to the government's hopes of improving confidence," said Mr Christopher Potts, chief economist at Banque Indosuez in Paris. "The question is whether interest rates will go up further."

The French franc closed unchanged in London at FFr3.4170 against the D-Mark. However, in US trading, it fell below the FFr3.42 level, closer to its floor against the D-Mark in the European Exchange Rate

Continued on Page 16
Currencies, Page 32

Kohl gives Russia 8 years' grace on debt repayments

By Quentin Peel in Moscow

GERMANY and Russia yesterday settled their most important financial dispute, clearing the way for a debt rescheduling package for Russia in the Paris Club this week.

A series of agreements followed two days of talks between Chancellor Helmut Kohl and President Boris Yeltsin. They include a deal to defer for eight years repayment of the DM17.6bn ($11.2bn) owed by Russia in transferable rouble debts to the former East Germany.

For his part, Mr Yeltsin has renounced all claims for massive compensation for Soviet military installations in east Germany. Originally, Russia had claimed as much as DM18bn for the facilities, then reduced it to DM8bn, and now to nothing.

The two sides were clearly delighted with their success in resolving the dispute, in spite of the upheaval within the Russian government over the past week. As a result Germany pledged its support for Russia in this week's Paris Club negotiations, aimed at rescheduling up to $16bn in sovereign debt falling due next year.

Chancellor Kohl presented his two-day visit as an overt demonstration of support for the Russian president.

"It was essential to come to Moscow at this particular moment, because our friends were facing some real difficulties," he said.

Mr Yeltsin responded at their joint press conference by insisting that the conservative forces had failed to halt the reform

Continued on Page 16
Gaidar still optimistic, Page 2

Supporters of Milan Panic, Yugoslav prime minister and candidate for the Serbian presidency, rally in Krusevac, 200km south of Belgrade. Call for war crimes trials, Page 2; US seeks aggressive action, Page 16

Half IBM's 25,000 job cuts to fall on European plants

By Alan Cane in London and Our Foreign Staff

EUROPE, International Business Machines' single largest market, is expected to account for almost half the 25,000 jobs the US computer giant plans to cut in 1993 under the restructuring programme announced on Tuesday.

IBM's European subsidiaries employ about 100,000 people in total. The company said yesterday that about 12,000 jobs would go in Europe, half in marketing and administration, and half in manufacturing and development.

Mr John Akers, IBM chairman, told analysts in New York the company's European business had declined "precipitously and unexpectedly" since the beginning of October, a collapse which has clearly shaken the company's senior executives.

Manufacturing sites at risk of contraction or closure include the semiconductor plants at Corbeil-Essones in France and Sindelfingen in Germany, the mainframe plants at Montpellier in France and Valencia in Spain and the printer plant at Jarfalla in Sweden. Forced redundancy is no longer being ruled out anywhere.

IBM is expected to deal with overcapacity at some plants by sharing manufacture – for example, with Siemens of Germany in semiconductor memories – or by building products on a contract basis for other companies.

IBM JOBS IN EUROPE	
Germany	30,000
France	19,316
UK	14,909
Italy	14,082
Netherlands	5,049
Spain	4,561
Sweden	3,948
Denmark	2,821
Switzerland	2,450
Benelux	2,229
Norway	993
Finland	975

Source: IBM end of 1991

Yesterday, country managers were starting discussions, expected to take several months, to agree the necessary cuts. Their studies will be complicated by the diversity of employment regulations across Europe.

Many were predicting, initially, job losses which far underestimated the totals demanded by Mr Akers on Tuesday.

Responses from individual European subsidiaries yesterday reflected a measure of confusion following the announcement from headquarters.

Germany: IBM Deutschland said it planned 2,500 redundancies in 1993 after cuts of 2,000 this year. No closures were yet planned. IBM intends gradually to reduce its manufacturing activities in Germany, which has the highest wages in the world.

France has lost 2,400 staff this year and plans to lose another 1,500 in 1993. There were no plans for plant closures, the French company said. Last summer, IBM allowed a circuit board supplier, Selectron, to take over an operation near Bordeaux, providing 250 jobs for former IBM staff.

The UK intends to lose 1,000 jobs next year, the same total as in 1992. The Greenock personal computer plant in Scotland, which employs 2,200 people, is thought to be safe as demand for its products is strong.

Italy is losing about 800 people a year through natural wastage and hopes to contain shrinkage to roughly the same level next year. No plant closures or compulsory redundancies are envisaged, the local subsidiary said.

The Netherlands: No job losses are expected in addition to a programme which should see staff fall from 5,049 to 4,230 by the end of 1995. There are no manufacturing plants.

Spain: No decision on cuts has been made. The Spanish market is no longer growing and profits could fall to Pta3bn-4bn ($27m-$40m) this year compared with Pta18bn in 1991.

Additional reporting by Peter Bruce, James Buxton, William Dawkins, Christopher Parkes, Haig Simonian, Louise Kehoe and Ronald Van der Krol.

CONTENTS

Major 'misled EC partners over HDTV'

By Lionel Barber in Brussels

MR John Major, UK Prime Minister, is facing charges that he misled his EC partners after Britain this week blocked funding for a Brussels-backed strategy to market high-definition technology to the European public.

The UK veto at a meeting of EC telecoms ministers on Tuesday astonished France, the Netherlands, and the European Commission, which thought Mr Major had signalled he was ready to drop opposition to spending Ecu500m (£400m) on HDTV over the next five years.

Mr Jacques Delors, European Commission President, has written to Mr Major reminding him of the "understanding" which both reached on HDTV during last weekend's EC summit at Edinburgh.

EC officials yesterday complained Mr Major had at worst broken his word, or at best been "slippery" in his dealings with Mr Delors, President Francois Mitterrand of France, and Mr Ruud Lubbers, Dutch premier, the plan's chief supporters.

The row over HDTV pits Britain, with its distaste for Brussels-backed industrial policy, against the continental desire to support national champions, in this case Philips of the Netherlands, and Thomson of France.

Both Philips and Thomson have invested millions in the D2-Mac and HD-Mac technology. The UK argues these could be overtaken by more advanced digital TV technology being developed in the US.

During the Edinburgh summit, both Mr Mitterrand and Mr Lubbers tried to persuade Mr Major to agree to a firm commitment to HDTV funding in the final summit declaration.

But Mr Major resisted, saying this was "detail". He pointed to the upcoming meeting of telecoms ministers in Brussels, according to Dutch and EC officials. These words were enough to persuade some delegations, including the Dutch, that Mr Major had shifted ground. "He gave the impression of movement, but he did not give a solid commitment," said one Dutch official.

At Tuesday's meeting in Brussels, Mr Tim Sainsbury, UK industry minister, opposed the Commission plan and offered a "compromise".

This involved Ecu80m funding, plus a review of all HDTV technology and digital technology by spring next year; but it was rejected by all 11 partners who reaffirmed their commitment to press ahead.

The EC funding would go to consortia for satellite broadcasting, as well as to producers for conversion of programmes for use in high definition TV sets. Money may also go to other widescreen TV services such as Pal Plus, and for modifying studios making programmes for broadcasting using HDTV technology.

Euro assault fended off

By Andrew Hill in Strasbourg

MEMBERS of the European parliament have been waiting nearly six months to abuse the British prime minister. Yesterday they got their chance. And they were not going to let it drop simply because Mr John Major had done a deal at the Edinburgh summit.

As Mr Major quickly learned, changing the opinion of the parliament is like trying to turn round an oil tanker: once MEPs have got up momentum, no amount of deft helmsmanship will stop them.

Speaking on behalf of the British presidency of the EC, Mr Major outlined the achievements of last weekend's summit and urged the Community to "lift its sights" towards an overall Gatt deal, and the "healing of the division across the heart of our continent".

Not good enough, said MEPs, and gave the chief representative of the most-heckled EC presidency in European history one of the stormiest receptions ever granted to a visiting head of government.

Edinburgh deal or no Edinburgh deal, some deputies were not prepared to write off the alleged high-handedness and self-interest of the preceding months of British presidency. In the words of Mr Jean-Pierre Cot, who leads the dominant group of socialist MEPs, Mr Major was trying to play two roles – the civilised Dr Jekyll and the villainous Mr Hyde, with "heavy-handed" emphasis on Mr Hyde.

But success at Edinburgh has left Mr Major smugly impervious to such attacks. He warned MEPs not to boss around their elders and betters in Britain. Deputies from right and left have backed a resolution calling on the British parliament to ratify the Maastricht treaty before July next year, but the British prime minister was adamant Westminster would ratify in its own time – or at least by October 1993.

British MPs now seem to have an unlikely ally in Mr Jacques Delors, Commission president.

"Time is on our side," Mr Delors told the Parliament yesterday. "What difference will six months make, provided at the end of [next] year we all come together to realise the ideals of the Community's founding fathers?"

● Nearly two-thirds of Danes would support the Maastricht treaty with the exemptions Denmark was granted at the weekend EC summit, a poll showed yesterday, AP reports from Copenhagen.

The survey in the Jyllands-Posten newspaper showed 59 per cent of the 900 people interviewed would approve the treaty. It said 22 per cent would reject it and 19 per cent were undecided.

Europe unprepared for VAT changes

By Charles Batchelor

FOUR out of 10 European companies are unprepared for the new European value added tax (VAT) regime which comes into force on January 1, according to a survey by accountants Arthur Andersen.

Some 74 per cent of the companies questioned claimed to be ready for the changes but closer examination showed that many did not have a full understanding of what was involved and that far fewer were really ready.

From January customs border controls will be abolished and companies with customers or suppliers in other European Community countries will compile their own VAT information and trade statistics. Business organisations have criticised the new system as too complex.

About 38 per cent of companies have collected the VAT numbers from fewer than half of their customers while a similar number have supplied their VAT numbers to fewer than half of their suppliers. This could prove costly because companies which do not provide their VAT numbers to suppliers will be charged VAT.

Few companies had made any effort to co-ordinate their response to the VAT changes throughout their European operations. The survey found that 35 per cent had not begun to make any changes when the survey was carried out early this month.

Italy emerged as the best prepared country, followed by Spain and the UK. The French thought they were the best prepared but 80 per cent of businesses had fewer than half the VAT numbers they needed and 68 per cent had not made any changes. UK companies said their most serious problem was adapting their computers.

VAT and 1993: Is Europe Really Ready? Arthur Andersen, 1 Surrey Street, London WC2R 2PS. Free.

Russia 'at start of the road to reform'

By John Lloyd and Leyla Boulton in Moscow

MR Yegor Gaidar, the former Prime Minister of Russia, said yesterday he was "not too pessimistic about the future" and that Russia was "at the start of a long road to reforms."

Speaking at the Institute for the Problems of the Transitional Period, of which he has become director, he confirmed in an interview with the Financial Times he has asked his ministers to stay in Mr Chernomyrdin's team, "as long as they are certain they can continue with reforms. I think they should be there some months. There are dangers of hyperinflation, and of some efforts to change the course of privatisation. But I think the main lines have been set down and they will continue."

Asked why President Boris Yeltsin had not continued to back him as premier after the Congress of People's Deputies vote on Monday, Mr Gaidar thought, burst out laughing and said: "I don't know. I think it was the terrible pressure from the Congress. You can only take so much of it."

Mr Anatoly Chubais, the deputy prime minister in charge of privatisation, said that "understanding my responsibilities for continuing the privatisation programme, I am prepared to continue", echoing other leading cabinet members. He warned that "the central question is to avoid hyperinflation", and proposed that a "top expert" like Mr Boris Feodorov, at present Russia's representative at the World Bank, should join the government as an inflation-fighter.

The struggle over Mr Yeltsin's most solid achievement from the Congress, the agreement to hold a referendum on April 11 on a new constitution, is already under way. A draft of the outline of the constitution on which the Russian people will be asked to vote is in circulation, and shows that if Mr Yeltsin wins assent, the Russian parliament will be reduced to a single-tier body rather than the division between the twice-annual Congress and permanent Supreme Soviet as now. This would entail immediate new elections after the referendum, timed for April 11. The draft also makes federal law explicitly superior to that of the autonomous republics, some of which have declared their independence from the centre.

The new Supreme Soviet would be the "single representative and legislative organ of the Russian federation," retaining its bicameral system of Chambers of the Republic and of Nationalities. The President would be "head of state and the highest executive in Russia, leader of the executive and representative of the Federation in internal and external relations".

The new Supreme Soviet would have the right to legislate and have right of veto over the prime minister and the foreign defence, interior and security ministers, but loses its pre-eminence over the president and has few rights in economic policy. The right to private property is in the constitution, as is the proposal that "economic relations are constructed on the basis of social partnership between the individual and the state, the workers and management, producers and consumers". The state will "regulate economic life in the interests of the individual and society".

Russian President Boris Yeltsin points and premier Chernomyrdin (left) listens, during debt talks with German officials yesterday

Craxi's political fate to be decided today

By Robert Graham in Rome

THE political fate of Mr Bettino Craxi, the Italian Socialist leader, is expected to be decided today at a meeting of the party's executive called to consider the implications of his alleged involvement in the Milan corruption scandal.

Mr Craxi was served notice on Monday he was under investigation by Milan magistrates for alleged corruption and illegal financing of the Socialist Party. He has declared his innocence in combative tone, but a growing body of the party feels his leadership is deeply compromised.

The main problem the executive faces is the choice of successor. Prof Giuliano Amato, prime minister, is understood to be reluctant to accept, as this would probably oblige him to leave office and so force a change of government. Other candidates like Mr Claudio Martelli, the justice minister, do not have sufficient support.

If Mr Craxi resigns, the party might opt for an interim leadership. Uncertainties surrounding the future of the Socialists, key members of the four-party government coalition, helped push the lira down further yesterday. It was being traded at L901-L902 against the D-Mark.

The Italian Bankers Association backed a half-point cut in lending rates by the end of the month, after government criticism of the high rates charged to industry.

● Doctors and medical staff yesterday staged a one-day strike, closing all but emergency health services in protest at government plans for a radical shake-up of the system.

Germans warn over far-right party ban

MAINSTREAM German politicians cautioned yesterday against banning the far-right Republican party, under investigation on suspicion of being anti-democratic, Reuter reports from Bonn.

Several state interior ministers said they hoped the investigation announced by the government would help major parties win a public opinion battle with the Republicans, the strongest of several small rightist parties. But they warned an outright ban, like ones Bonn imposed recently on two smaller rightist groups, would only drive members underground or into other far-right organisations.

"The issue is simply that we confront the Republicans, democratically for now, and make clear to many citizens what forces are at our work within the Republicans," said Mr Friedel Läpple, interior minister of tiny Saarland state. "That does not mean I think the party should be suppressed."

In 1989, the Republicans won a surprise 11 per cent in April state elections in Baden-Württemberg and 8.3 per cent in Berlin borough council polls in May. The party is more established than two other groups banned by Bonn in a crackdown on rightist violence since a firebombing killed three Turks in Mölln in November.

● Germany unveiled a new computer system yesterday to help accommodate the huge influx of refugees from eastern Europe and the Third World. The DM2m system, in operation on April 1, is designed to distribute asylum-seekers more quickly between crowded refugee hostels.

Polish industrial protests grow

INDUSTRIAL PROTEST grew in Poland yesterday as more than half the country's coal miners went on strike and railway workers in Silesia, the country's industrial heartland, threatened to disrupt transport of freight, writes Christopher Bobinski in Warsaw.

Steel unions are to meet today to consider whether to join the protests, which aim to force the government to address the region's industrial restructuring needs.

The strikers, led by Solidarity and supported by other local unions, are also demanding that energy price rises this year and next be fully compensated with wage increases.

The region accounts for 70 per cent of Poland's rail freight traffic and strike leaders see selected stoppages as a means of bringing pressure to bear on the government.

However, pithead coal stocks and power station reserves are high, giving the government a temporary advantage.

Portugal lifts capital controls

The Bank of Portugal yesterday announced it was immediately lifting restrictions on capital movements, two weeks ahead of schedule, AP reports from Lisbon.

The lifting of controls allows foreigners to operate in Portugal's short-term money market and enables domestic banks to lend escudos to non-residents, said Mr Vasco Pereira, director of the central bank's foreign department.

Fianna Fail opens talks with Labour

Ireland's Fianna Fail and Labour parties yesterday began exploring the possibility of forming a coalition government, following parliament's failure on Monday to elect a new prime minister, writes Tim Coone in Dublin.

Leaders of both parties disagree about who should lead such a coalition, however. Labour's insistence that there should be a centre-left policy programme and that its leader, Mr Dick Spring, should be prime minister, has been rejected both by Fianna Fail and by the main opposition Fine Gael party.

Albania knocks on Nato's door

Albania, warning that war will spread through the Balkans, applied yesterday to join Nato, but got only a lukewarm response, Reuter reports from Brussels.

Nato Secretary-General Manfred Wörner said Albania's application would be considered "in due course".

'Time is running out for refugees'

By Frances Williams in Geneva

TIME is running out for the people of Bosnia-Hercegovina, Mrs Sadako Ogata, UN High Commissioner for Refugees, warned yesterday.

"It will be an uphill battle for humanitarian organisations as winter sets in, the infrastructure deteriorates and hostilities continue," she told foreign ministers attending a one-day meeting in Geneva on the Bosnian crisis.

Mrs Ogata said new waves of refugees had been created in recent weeks by the fighting, and predicted more population movements in the coming weeks as the military situation worsened.

Ethnic cleansing and terror tactics, including rape and sexual abuse of girls and women, were continuing despite greater international condemnation.

Meanwhile, continued fighting, harassment and threats suffered by aid workers, looting and other obstacles continued to handicap the relief effort.

UNHCR now had the capacity to meet the aid needs in Bosnia but was delivering only about 80 per cent of food needs and half the supplies for winter protection. The quantity of relief reaching Sarajevo and eastern Bosnia remained far below requirements, "putting at serious risk some 800,000 persons".

A UNHCR official said yesterday continued fighting in Sarajevo had forced the agency to postpone resumption of the humanitarian airlift, suspended a fortnight ago, until the weekend.

The governments involved have asked the UN protection force in Sarajevo to institute further security measures around the airport, including perimeter patrols, before they agree to further flights.

The UNHCR is assisting some 1.7m people in Bosnia and almost 1.3m refugees and displaced people elsewhere in the former Yugoslavia.

About 600,000 refugees have fled to other European countries. Just over a year ago the number of displaced was around 300,000.

Mrs Ogata urged "decisive political action," but cautioned against military intervention.

"Any debate on enforcement action should take into account the security of our highly exposed and unarmed staff and the humanitarian implications for the victims of the conflict," she said, adding her voice to those of Mr Cyrus Vance and Lord Owen, the international mediators for ex-Yugoslavia.

'Try Serbs for war crimes'

By Frances Williams in Geneva and Laura Silber in Belgrade

MR Lawrence Eagleburger, US secretary of state, said yesterday Serbian political and military leaders should be tried for war crimes in Bosnia and Croatia.

He said Mr Slobodan Milosevic, the Serbian president, Mr Radovan Karadzic, the Bosnian Serb leader, and General Ratko Mladic, the Bosnian Serb military commander, would have to answer for crimes against humanity committed by forces for which they were responsible. "A second Nuremberg" awaited the practitioners of ethnic cleansing, he said.

Addressing foreign ministers at a special meeting of the international peace conference on former Yugoslavia, Mr Eagleburger said the US was supplying details of war crimes, including the names of the individuals who committed them and the leaders who may have ordered them, to the UN War Crimes Commission.

The Commission, meeting in Geneva this week, is charged with sifting the evidence for future prosecutions. Mr Eagleburger called earlier this week for an international war crimes tribunal to bring perpetrators to justice.

The naming of President Milosevic to a possible war crimes investigation reflects the growing frustration of the international community about its failure to end the bloodshed in Bosnia.

"The statement has made clear that Serbia has a choice. No one has satanised the Serbian people. But the policies of the regime in Belgrade are responsible for Serbia's isolation and international sanctions," said a western diplomat.

At the same time, diplomats worried that Serbian television, in the grips of Mr Milosevic, would use the report of Mr Eagleburger to rally his supporters.

Post-cold war Nato works its way into its new role

Not far from Sarajevo, a unit once ranged against Moscow deploys its resources as a peacekeeper, writes **David White**

AT A municipally owned spa hotel at Kiseljak, not far from Sarajevo, Nato is working its way into a role for which it was never intended.

The Hotel Dalmacija, an unsuccessful project built for the 1984 Winter Olympics, has become the headquarters for United Nations military operations in Bosnia-Hercegovina. The organisation and equipment have mostly been transferred from Mönchengladbach, the base of Nato's Northern Army Group (Northag), a command set to close down next year as part of the alliance's post-cold war restructuring.

The 420 military staff squeezed into the hotel include British, Dutch and Belgians straight from Northag's mobile HQ, which was designed as a back-up in an all-out east-west war – in case the main headquarters was destroyed.

For German constitutional reasons, Germans at the HQ could not be sent to Bosnia. In their place are Americans, French, Spaniards, Danes, Portuguese and Norwegians. Apart from two token officers representing Ukrainian and Egyptian troops based in Sarajevo, it is a totally Nato affair.

This is a new departure for Nato, which decided only six months ago to make its resources available for peacekeeping. At a meeting today in Brussels, Nato foreign ministers are due to strengthen that commitment in support of the Conference on Security and Co-operation in Europe or the UN.

They will also discuss practical steps – from fact-finding missions to training and deployment plans – to enable Nato to respond quickly when its help is sought.

Bosnia is the first instance of direct Nato involvement – through the headquarters and the use of its Awacs early-warning aircraft alongside that of individual Nato allies in a UN operation.

Deployments to Bosnia were preceded in July by the dispatch of a Nato warship flotilla to the Adriatic, alongside another sent by the Western European Union. The moves followed months of sterile debate about the relative roles of the two organisations in European security.

Nato's anxiety not to be outdone was, one French diplomat commented, "a little bit ridiculous". The WEU had organised maritime patrols before, in the Gulf. But when it came to ground operations, even the French had to recognise that only Nato was competent.

> Bosnia is the first instance of direct Nato involvement alongside that of individual Nato allies in a UN-sponsored operation

The nature of the UN plan for safeguarding aid supplies in Bosnia, which meant deploying troops while a war was still going on, demanded well-organised command and control. The US, which had agreed to provide logistics and medical support although not combat forces, was brought into the headquarters operation providing vital access to US intelligence.

It is significant that the mainstream Nato allies have been brought together with the French. The headquarters is drawn largely from the integrated military structure, which France withdrew from 26 years ago. But the UN commander in Bosnia is French, Major General Philippe Morillon. Spain, the other ally formally outside the integrated Nato command, provides his deputy, Brig Gen Luis Martinez Coll.

The chief of staff is a Briton, Brigadier Roddy Cordy-Simpson. It is a sign of the significance Britain regards this mission as having for the alliance that he is destined to be the next commander of the British armoured division in Germany, the heart of the UK's contribution to Nato.

Maj Gen Morillon, for his part, formerly commanded the 1st French armoured division in Germany, one of the cornerstones of the planned Franco-German Eurocorps. Bitter argument in Nato over this scheme, which the US saw as undermining the alliance, has been miraculously smoothed over in recent weeks.

Paris and Bonn have made clear to the satisfaction of other allies – although operational details are still being worked out – that the corps will be available to Nato's supreme commander in Europe, either for European defence or for peacekeeping or humanitarian missions.

Peacekeeping, a job Nato would never have been thought suited for during the cold war, is taking on growing importance in alliance planning. A French official said Nato's primary role of guarding against aggression from the east was "less and less plausible, and maybe not enough to guarantee its cohesion".

While France maintained its independent stance within Nato, "for peacekeeping we are all on the same footing", he said. France favoured setting up a planning cell of all 16 allies, in effect bringing it back into Nato military planning. It was ready to work with the staff of Shape (Supreme Headquarters Allied Powers Europe) as long as other members understood there was no question of Shape itself taking a military initiative in situations like the former Yugoslavia.

"On a practical level, the French are back," he said.

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Big deal at Little Rock

Economic summit solved no problems but it was a tour de force by Clinton, writes **Michael Prowse**

THE two-day economic "summit" in Little Rock that many feared would be a public relations disaster was a personal triumph for Mr Clinton.

In 19 hours of televised debate he demonstrated his mastery of an extraordinary range of complex issues; indeed, as the tireless moderator, he seemed to have a better grasp of the minutiae of most topics than many of the invited experts.

As one participant put it, Mr Clinton combined "the leadership qualities of the class president with the expertise of the class nerd". He also showed a keen wit. When Mr Robert Kuttner, an economics columnist for New Republic Magazine, lapsed into almost obsequious praise, describing the conference as "magical" – the "defining moment" of his presidency, Mr Clinton shot back: "I hope it is not all downhill from here."

However, Mr Clinton's economic teach-in did not resolve any of the economic problems facing his administration. It ended, as it began, with the president-elect committed to two potentially incompatible goals: a substantial increase in investment spending and a big reduction in the long-term budget deficit.

His analytical capacity and communication skills are certainly no guarantee of good policies. But after a series of intellectually unimpressive presidents, his abilities should not be underestimated.

Americans yearn for presidential leadership, and a president's ability to get things done on Capitol Hill depends in large measure on the public esteem he commands and his ability to forge a consensus on policy priorities. The positive media coverage of the conference will enhance his authority in economic negotiations with Congress.

Mr Clinton, and Vice President-elect Al Gore, may also be beginning to change the public mood. President George Bush lost the election in part because people felt a sense of helplessness about the future: after four years of stagnation the American dream of ever rising prosperity seemed in doubt.

Moderate increases in industrial production and housing starts, and a decline in building permits, yesterday offered further evidence of a sluggish recovery of the US economy, AP-DJ reports from Washington. Broad-based gains pushed industrial production up a seasonally adjusted 0.4 per cent in November, following a revised 0.5 per cent increase in October, the Federal Reserve said.

The Commerce Department reported that housing starts rose by 1.5 per cent to a seasonally adjusted annual rate of 1.242m units in November. Building permits fell by 1.5 per cent to a seasonally adjusted rate of 1.122m units.

Mr Clinton's ability to discuss deep-seated problems, calmly, candidly and without an obvious ideological bias seemed to reassure delegates and phone-in participants alike. It suggests he will head a "problem-solving" administration.

The quality of debate was enhanced by the diversity of participants. Businesses of all sizes were strongly represented: indeed their contributions seemed greatly to exceed those from the unions or overt left-wingers. And some of the most interesting points were made by successful female executives.

Mr Clinton, for example, seemed bowled over by Ms Sheryl Handler, president of Thinking Machines Corp of Massachusetts, who argued that federal government, as the economy's biggest purchaser, should use its market power creatively.

Instead of always seeking the lowest bid, she said, government should become a "smart customer", demanding greater inventiveness as well as cost efficiency in its suppliers. It should become an active force promoting higher standards and aspirations in the private sector.

The scope of the conference, moreover, demonstrated Mr Clinton's broad vision of economics. This was not a narrow discussion of fiscal and monetary policy but a broad debate encompassing education and training, health care, urban poverty, the role of government, the environment and technology policy.

In nearly all sessions, Mr Clinton ensured the focus remained firmly on long-term challenges. The 20-year "conversation about America" he has held with close friends has now become a national affair.

For hours on end, Mr Clinton wrestled publicly with what he described as his administration's most important economic decision: the relative weight to place on deficit reduction on the one hand and higher investment in education, training and infrastructure on the other. At one point, he suggested that resources raised from tax increases and spending cuts should be evenly split between them. This was roughly the solution he advocated in his campaign plan "Putting People First".

At the closing news conference, Mr Clinton said he had not yet decided whether a fiscal stimulus was needed next year – it would depend on how the economic data looked next month. But in what amounted to hours of economic testimony, he seemed doubtful of the merits of a traditional stimulus. He wants to get on with tackling long-term challenges, such as reforming the health care system.

The heart of the economic plan to be unveiled next month is likely to be a controversial attempt to switch the emphasis of federal spending from consumption to investment. But if this is to be consistent with the deficit reduction Mr Clinton also promises, it will require either quite substantial tax increases or a swingeing attack on current government spending, including sharp curbs on entitlement programmes such as health care and pensions.

Mr Clinton has the intelligence to design a programme; the question is whether he has the toughness to push the unpopular elements through Congress.

Man in the spotlight: President-elect Bill Clinton in contemplative mood at the Little Rock economic conference

Brazil economy minister Krause resigns office

By Christina Lamb in Rio de Janeiro

BRAZIL'S economy minister resigned yesterday. This first big upset to the government of President Itamar Franco heightened the country's economic instability and provoked fears of a return to state interventionist policy.

Mr Gustavo Krause's decision to quit came after Tuesday night's presidential decree suspending the privatisation programme for three months – a decision Mr Franco took in a meeting attended by none of the economic team.

The third economy minister in two years, Mr Krause was criticised on his appointment for lacking experience and he survived for only two months.

His departure had been predicted since Mr Franco rejected a document outlining the government's economic strategy prepared by Mr Krause and Mr Paulo Haddad, planning minister. Mr Franco criticised their insistence on maintaining high real interest rates to contain inflation – now 25 per cent a month.

The departure of Mr Krause and the suspension of privatisation suggests that those within the government favouring free-market policies are losing out and is heightening fears of a return to more state interventionist policy and an abandoning of the modernisation programme.

"It's at the very least a detour in Brazil's path towards modernisation," said Mr Fernando Gentil, president of ING Bank in Brazil.

Yesterday the Central Bank had to intervene heavily to contain a rush on dollars and gold and the price of Brazilian debt on the secondary market fell to just 25.5 cents in the dollar – the lowest in Latin America except for Peru.

Although Mr Franco has reiterated his commitment to privatisation and issued a new timetable of sales, investors fear the suspension shows his true colours.

Investors are now focusing on whether Mr Haddad will remain in office and who will succeed Mr Krause as the key to the future direction of the Brazilian economy.

Christopher top candidate for secretary of state

By Jurek Martin in Washington

WITH his economic "summit" out of the way, President-elect Bill Clinton is expected to announce further cabinet appointments as early as today.

Mr Warren Christopher is considered the most likely choice as secretary of state, while Mr Les Aspin, the Wisconsin congressman, is now rated the front-runner for the defence post.

It is becoming increasingly obvious Mr Clinton himself is making the selections, using his own network of contacts and relying on one-on-one interviews, rather than following the recommendations of his transition team.

The choice of Mr Christopher to run foreign policy would be no surprise, given his closeness to the president-elect and his experience as deputy secretary of state in the Carter administration. His expertise in the Middle East, sharpened by his leading diplomatic role in trying to free the US hostages from Iran, is of obvious value.

Senator Bill Bradley of New Jersey had also appeared to be a viable candidate for the position. General Colin Powell, chairman of the joint chiefs of staff, reportedly hit it off with Mr Clinton when they met last month, but has said he is happy to stay in the military. His term in his present position expires next September.

Inside the White House, Mr Anthony Lake, now a university professor but another long-time Clinton adviser and State Department veteran under Mr Carter, is said to have the inside track for national security adviser.

Mr Aspin is a reigning congressional defence expert. Like Mr Clinton, he went to Oxford and opposed the Vietnam war but is more conservative than many Democrats over cutting the defence budget.

Mr Mike Espy, the black congressman from Mississippi, now apparently leads the field to become secretary of agriculture. Mr Henry Cisneros, former mayor of San Antonio, has let it be known he will not compete for the Texas Senate seat vacated by Mr Lloyd Bentsen, the Treasury secretary-designate, presumably on the grounds that he is assured of the housing portfolio.

Mr Tim Wirth, outgoing senator from Colorado, is still considered the likeliest energy secretary, with former Governor Bruce Babbitt of Arizona said to be in line for the interior job.

Argentina close to finance for debt deal

By Stephen Fidler, Latin America Editor

ARGENTINA looks set this week to secure the necessary financing to back its $31bn (£20.3bn) bank debt reduction agreement now being signed by commercial bank creditors.

The agreement requires $3.2bn of finance to be provided for guarantees, or "enhancements", for the concessionary bonds which banks will exchange for their old loans.

Yesterday, the board of the InterAmerican Development Bank agreed a $350m loan to encourage reform of the Argentine investment sector, $75m of which will go toward enhancements. The board is expected to agree another $400m loan on Friday to finance enhancements.

In addition to $742m of Argentina's own resources, the International Monetary Fund is expected to provide $945m, the World Bank $745m and the Japanese Exim Bank $800m for enhancements.

The $400m loan will be the first loan by a multilateral bank entirely used to back a debt reduction deal, and will take new IADB credits to Argentina to over $1bn, making Argentina the largest recipient of new IADB commitments in 1992.

US-led forces reach Somalia's starving

Julian Ozanne watches as soldiers accompany food convoys deep into the interior of the country

US AND French soldiers yesterday rolled into Baidoa, a lawless central Somali town at the centre of the starvation zone, and immediately started escorting food convoys and relief workers battling hunger and disease.

It was the first big thrust by the US-led multinational force into the hunger-ridden interior since last week's landing in the capital Mogadishu.

An 80 vehicle column of all-terrain vehicles, trucks, armoured personnel carriers and earth diggers carrying 520 US marines and 142 French paratroopers arrived in the town at dawn after a slow 18-hour drive along a rugged bush highway from Mogadishu.

The convoy waited for sunrise before entering the town where up to 90 people are dying daily from starvation and wild shootings. An American flag fluttered from the gun mount of an armoured personnel carrier (APC) near the front of the column as fighter jets swooped across the town.

Cobra and Huey helicopter gunships flew overhead looking for signs of resistance. So-called "technicals" - rugged armoured Somali battle wagons - and gunmen melted from the streets and rubble-strewn alleys.

Curious Somalis emerged from their ramshackle houses of sticks and corrugated iron and lined the dusty streets waving, smiling and cheering the foreign troops they hope will deliver them from violent anarchy and looting which have destroyed their lives and their country.

The marines, dressed in desert camouflage, flak jackets and heavy helmets, waved back and displayed miniature blue and white starred Somali flags intertwined with the Stars and Stripes.

The convoy wound its way around the town to the disused airbase, jostling in the potholed narrow streets with camels, cows and donkey-carts carrying water drums and sacks of looted wheat in bags marked "USA" in red, white and blue. Several cars belonging to journalists, which tried to slip into the convoy, were rammed by the heavy armoured jeeps trying to stay in formation. Some French foreign legionnaires, wanted somewhere for unknown offences, covered their faces with handkerchiefs from the television cameras.

Somali clan gunmen killed 10 people and wounded 10 others at a feeding centre for the starving in the southern town of Bardere, an aid worker said yesterday, Reuter reports from Baidoa.

Unidentified armed men attacked the feeding centre on Monday after they found no food to plunder from relief stores and became angry. "Some food warehouses were attacked. When they found nothing they got angry and went on this wanton rampage," said Mr James Fennell of the international agency Care.

At the airfield, seized by an advance marine team late on Tuesday night, 90 gunmen stood in formation on the apron, surrendered their weapons and handed the airport over to the force. Marines secured the guns in an abandoned warehouse and began gathering up Soviet-made missiles, rockets and thousands of rounds of 30mm anti-aircraft shells lying in the overgrown fields along the tarmac.

Within 45 minutes seven CH53 transport helicopters, carrying a rifle company of 170 marines, landed on the runway. The marines took up defensive positions in the arid scrub land, and within an hour had set up a camouflaged communications operation and were allowing aid planes carrying food to land.

Later in the afternoon French and US soldiers escorted a small convoy of food through the town to an orphanage. The soldiers handed out high-protein biscuits to 400 orphans.

Aid supremos, like Mr Bill Garvelink of the US office of Disaster Assistant, flew into the town throughout the day to urgently prepare aid master plans to reach an estimated 300,000 to 400,000 Somalis in the region.

Assessment missions of nutritionists and doctors were preparing to make their first trip out of the town for months into the surrounding villages where they fear they will find a hidden tragedy. Deserted villages and thousands of graves surrounding the town bear out a recent US report which said 71 per cent of children under five years old in the area are already dead.

Aid workers in Baidoa, who have been victims of an aggressive protection racket, looting and violence, were ecstatic. "A tremendous sandbag has been lifted off our shoulders," said Ms Josie Clevenger, project co-ordinator of International Medical Corps, a Los Angeles-based charity. "There is the sense of relief that at last the violence is over and that now, together with the military, we can do our job of saving lives."

The US marines came face to face with the starving people and squalid conditions of Somalia's devastated interior. "I didn't think it was going to be so bad, so dirty, so poor here," said Captain Bob Castelli, bent over some maps on the bonnet of a Humvee. "You can tell people are hurting bad here and they are much more hungry than in Mogadishu. It's good that we got here to get the relief supplies moving and get some order in the town."

Children in rags followed marines around the town on their first foot patrol and treated them throughout the day like pied pipers, trying to sell the soldiers cigarettes and mangoes. The patrol passed teenagers and former gunmen clustered in groups on street corners who have hidden their weapons but still wear their trademark T-shirts printed with gangland-style phrases like "I am the Boss" and "Here comes the Mafia."

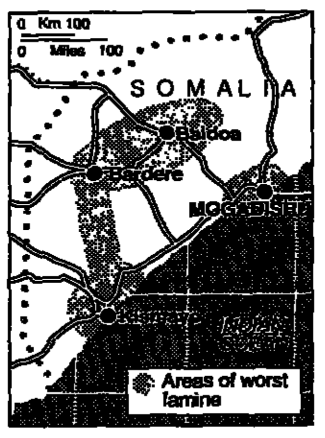
American troops, briefed to win the hearts and minds of the people, struck up conversations with Somali teenagers, most of whom were only interested in asking questions about the sophisticated weaponry of the US army and the "first world technicals" - the Humvees which are armed with mounted anti-tank cannons.

Somalis generally welcomed the foreign soldiers. A hasty banner, thrown across one wall and spelling slightly awry, said: "We are happy for the intervention."

But many also warned about foreign forces trying to disarm gunmen and stamp out the trade in *qat* - a narcotic stimulant grown in Kenya but widely used throughout Somalia. "If the US soldiers are here to help with relief and restore order we are very happy," said Mr Mohamed Arto, a local trader. "But if they try to take away our guns and stop the *qat* coming into the country they will end up in serious trouble. This is our country and our culture. They can do anything but attack that."

In a meeting with aid workers US and French officers said they would not try to disarm battling clan-based factions outside of secured military zones unless they threatened either the forces or relief efforts. But they warned that any "technical" driving around the streets would be considered as hostile.

US military officials said the next step of "Operation Restore Hope" would be to take control of the unruly southern port city of Kismayo in an amphibious landing within the next five days.



Baidoa residents watch a US Marine directing vehicles after the US-led forces arrived yesterday

Japan likely to agree cut in defence budget

By Charles Leadbeater in Tokyo

THE Japanese government is close to agreeing the first cut in defence spending since the second world war, as part of the budget for next year, which should be finalised within 10 days.

After weeks of intense negotiations a cabinet meeting tomorrow is likely to approve a cut of about Y600bn ($4.8bn) in a defence budget of about Y22,750bn. The cut is a triumph for the powerful Finance Ministry, which wants to reduce defence expenditure, in order to stimulate the economy by increasing investment in public works. The budget plan will be unveiled on December 26. The final negotiations over are taking place this week.

The cut in spending marks an abrupt change in Japanese policy in the wake of the cold war and reduced defence expenditure in the US and Europe. During most of the 1960s and 1970s Japanese defence spending rose by more than 10 per cent a year. In the past decade it has risen by about 5 per cent a year.

The Finance Ministry argues the cuts are justified by the end of the cold war and a need to reduce expenditure to make up for a sharp fall in tax revenues brought on by the economic downturn. Public works spending is likely to rise by about 5 per cent, forming the centre-piece of an attempt to prevent the economy falling into outright recession.

The defence agency has maintained that the rapid build-up in arms expenditure in the rest of Asia, particularly in South and North Korea and China, justifies continued increases in expenditure. The defence forces are likely to be given Y140bn to buy two Awacs early warning aircraft from the US.

It is likely that overall public spending will rise only marginally, because the Finance Ministry opposes increased borrowing as a means of financing tax cuts or higher public spending. Social security and education spending may also be cut.

However, spending through the so-called second budget - the Fiscal Investment and Loan Programme - which is funded by savings deposited through the postal system, will rise by about 10 per cent.

The government is expected to reintroduce tax incentives, withdrawn in 1988, aimed at stimulating the depressed property market. Increases in indirect taxes on liquor and cigarettes are unlikely in the light of stiff opposition from retailers, badly hit by the slump in consumer spending.

It seems increasingly likely, though, that the government will consider cutting taxes next year.

Israel to keep afloat arms manufacturer

By Hugh Carnegy in Jerusalem

THE ISRAELI government yesterday agreed to bail out the financially stricken Israel Military Industries in an attempt to keep afloat one of the mainstays of the country's big state-owned defence industry, which has been hard hit by falling world demand for military products.

The cabinet voted to back a recovery plan for IMI - best known as the maker of the Uzi sub-machine gun - which includes an injection of Shk750m ($289m) in government funds and a 2,500 cut in the present 7,500-strong workforce. Previously, the government had pumped Shk250m into IMI to staunch losses which approached $250m last year on sales which fell 20 per cent to $520m.

Mr Yitzhak Rabin, the prime minister, told ministers who protested at the scale of layoffs redundancies that the only alternative he would consider was to liquidate the company.

The crisis in the defence industry is a serious economic and political problem for the Labour-led government. As well as sucking in government money, the decline in military sales, a mainstay of Israel's exports, has held back growth at a time when the government is having to cope with the burden of mass immigration from the former Soviet Union. There is already record unemployment of more than 11 per cent of the workforce.

Aside from IMI, the government is also being asked by Israel Aircraft Industries, the country's biggest company, for more than $150m in emergency aid to help it cope with falling sales. It plans to cut its workforce of 17,000 by at least 1,500. Raphael, a developer of weapons systems run by the defence ministry, is also mired in losses.

Deals put in doubt by Kenyan poll

By Michael Holman in Nairobi

ONE OF Kenya's main opposition parties warned yesterday that questionable projects involving British and other foreign companies would be reappraised if it won this month's general election.

The warning came as the political temperature of Kenya's tense election campaign rose a further notch. Police given orders to shoot to kill in the trouble-torn Rift Valley Province, and election observers again criticised the for its conduct of the election process.

In separate letters to the British High Commissioner and the Japanese ambassador, Mr Robert Shaw, a senior official in the Ford (Kenya) party listed five projects and a loan agreement involving state-owned corporations.

Although this is not the first time some of the projects listed have been the subject of speculation, the opposition claims to have gathered more evidence.

In his letter to Sir Kieran Prendergast, the British high comissioner, Mr Shaw stressed that a Ford (Kenya) government "will honour all Kenya's honestly incurred international obligations".

But an independent firm of auditors would be asked to investigate alleged "complicity in corruption by external financiers as well as the executors of the projects" the letter continued.

Meanwhile the government's conduct of the run-up to the December 29 general election has again been criticised by international monitors.

The Washington-based International Republican Institute yesterday expressed "fears that the process has been significantly compromised by the government on behalf of the ruling party".

In its preliminary report the institute expresses concern about "government's centralised and systematic manipulation of the administrative and security structure of the state," including use of "substantial monetary resources".

Earlier this week the Commonwealth observer group warned that the election was being jeopardised by nomination "irregularities" that have led to 17 candidates of the ruling Kanu party being returned unopposed.

Suspect in Carrian affair held in HK

By Simon Holberton in Hong Kong

THE Hong Kong government yesterday inched closer to a resolution of the 1983 Carrian property scandal when officers of the Independent Commission Against Corruption last night arrested a key suspect on his arrival in the colony.

Mr Lorrain Osman, former chairman of Bumiputra Malaysia Finance Corporation (BMFC), was extradited to Hong Kong after his 10th appeal was overturned by the House of Lords on Tuesday - ending his seven year attempt to avoid trial.

In court today he will face 39 charges of conspiracy to defraud, conspiracy to steal, theft and false accounting. These charges are in connection with HK$6bn of loans made to Carrian by BMFC. Carrian was placed in liquidation in October 1983 with debts of more than HK$10bn.

Mr Osman has used his considerable personal financial resources to avoid extradition. He had been on remand in a London prison since December 1985 - making him the longest serving prisoner on remand in British legal history.

Lorrain Osman: extradited

His legal representative in Hong Kong said yesterday that Mr Osman feared for his life. There have been two deaths associated with the Carrian scandal since it broke in 1983 and the ICAC plans to offer him protective custody.

A Malaysian government inspector sent to investigate the affairs of BMFC was murdered and his body dumped in a banana grove; in an apparent suicide a solicitor connected with Carrian was found at the bottom of his swimming pool with a manhole covered tied to his neck.

UN soldiers captured in Cambodia

By Victor Mallet in Bangkok

KHMER ROUGE guerrillas have seized 21 United Nations peacekeepers in central Cambodia in the second such incident this month, the UN Transitional Authority in Cambodia said last night.

"We don't think they are in any kind of danger and we're confident they will be released shortly," Mr Eric Falt, the Untac spokesman, said in the capital, Phnom Penh.

The captives, still held last night in Kompong Thom province, include 15 Indonesian soldiers, four military observers - from the US, China, France and Senegal - and two Cambodian interpreters.

On December 1, a Khmer Rouge guerrilla unit in the same province held six military observers for three days after they penetrated Khmer Rouge territory by driving up a river in inflatable boats. They were released unharmed.

The Khmer Rouge was one of four Cambodian factions to sign a peace accord in Paris last year which paved the way for the UN's $2bn (£1.3bn) peacekeeping operation, but it has repeatedly flouted the accord.

Yeltsin pins export hopes on China visit

By Our Foreign Staff

PRESIDENT Boris Yeltsin of Russia today begins a three-day visit to China which will underline the two countries' mutual need for good relations despite the different paths they are taking away from communist ideology.

Mr Yeltsin hopes to win some 20 agreements on industrial and technical co-operation and trade. Trade is growing and is expected to approach $5bn this year, of which arms sales to Beijing are a significant component.

His visit is the first by a top Moscow official since Mr Mikhail Gorbachev received a hero's welcome from pro-democracy demonstrators in Beijing in 1989.

Russia, which has suffered a sharp contraction of export markets, sees Chinese demand for arms as a way of keeping defence industries going and retaining jobs. This year, it has sold 24 Su27 high performance fighter planes, missile guidance technology, rocket engines and MiG-31 interceptors to Beijing, causing consternation among China's Asian neighbours.

A diplomat in Beijing said: "The Chinese need to replace just about every bit of military equipment they've got and Russia is the only country that will sell it to them."

China's communist leaders are adopting a pragmatic approach, wooing the new states of the former Soviet empire and at the same time denouncing the betrayers of communism.

Mr Igor Rogachev, Russian ambassador to China, said that as nuclear powers and permanent members of the UN Security Council, the two countries were important influences on global and Asia-Pacific peace and stability.

Mr Yeltsin is due to meet Chinese premier Li Peng and Jiang Zemin, Communist Party general secretary.

Asked yesterday why authoritarian China was more successful in its economic reforms than democratising Russia, Mr Yeltsin said: "China has been reforming for 14 years - we started only less than a year ago." The brusque reply disguises the fact that many Russian industrialists admire the Chinese path: Mr Arkady Volsky, the industrialists' leader, has talked warmly of the Chinese model, while insisting he does not wish to copy its adherence to communism.

Afghan chief resists move

AFGHANISTAN'S interim president, Mr Burhanuddin Rabbani, said yesterday, a day after his tenure expired, that he would only transfer power to a council of elected national representatives, Reuter reports from Kabul.

"We have a joint leadership decision that whenever the Hal-o-Aqad council is held, the affairs of the nation will be handed over to it, he said in an interview. Most other mujahideen leaders have demanded that he step down immediately and have warned that he may be trying to delay the Hal-o-Aqad in order to cling to power.

The Hal-o-Aqad of nationwide representatives is to choose Afghanistan's first elected president since the Soviet invasion in 1979.

Assembly for Bahrain

THE EMIR of Bahrain is to set up a consultative assembly to give people a greater say in the running of the Gulf island state, Reuter reports from Bahrain.

The Bahraini announcement is the latest move by conservative Gulf states to involve citizens more directly in the running of their countries.

It follows similar moves by Saudi Arabia and other Gulf states but falls short of allowing a full-fledged elected parliament as Kuwait did earlier this year.

Speaking on Bahrain's National Day, Sheikh Isa bin Sulman al-Khalifa said: "Bahrain's government and people are adapting to the new era of changes, just as they did under more difficult circumstances in the past."

Opposition gives Keating's Labor a leg up in the polls

Conservative reform manifesto played into economically beleaguered Australian government's hands, writes **Kevin Brown**

A YEAR after Mr Paul Keating moved into the prime minister's office, Australia's Labor government should be in its death throes.

Unemployment is at a post-war record of 11.4 per cent, economic growth is sluggish, and the country is being swept by a wave of politically inspired industrial unrest.

Yet far from slipping towards inevitable defeat in a general election due before June next year, the government's popularity has surged in recent opinion polls, putting Labor within reach of an historic fifth consecutive victory.

Suddenly, Mr John Hewson, leader of the conservative Liberal/National party coalition, is facing the prospect of defeat in an election that looked unloseable a few months ago.

Paradoxically, the roots of the government revival lie in the release in November 1991 of the opposition's Fightback programme for government - a detailed manifesto commitment to wide-ranging economic and social reform.

The proposed mix of labour market deregulation, tariff reductions and tax reform was carefully designed to present a coherent programme building on Labor's own reforms since 1983.

The centrepiece was a switch to taxing consumption rather than production by replacing six taxes, including payroll tax and wholesale sales tax, with a 15 per cent goods and services tax (GST).

At first, Fightback was a success. Mr Bob Hawke, the then prime minister, appeared confused by the detailed opposition proposals and the government seemed unable to identify a convincing weak spot.

Fightback helped trigger a Labor leadership battle in December last year which led to the replacement of Mr Hawke by Mr Keating, a former treasurer (finance minister), who had languished on the back benches for six months after failing in an earlier challenge.

Since then, Mr Hewson has been outmanoeuvred by Mr Keating, who has cleverly focused debate on the alleged inequities of the proposed GST, assisted by criticism from religious and social welfare groups.

At the same time, Mr Keating has diverted the attention of voters away from pressing economic problems through uninhibited use of the government's ability to manage the news.

This technique has been used to prompt anguished debate on emotional issues such as the abolition of the monarchy, sex on television, the removal of British symbols from the Australian flag, and exploitation of Aborigines.

The federal government has also been helped by conservative election victories in Tasmania and Victoria, where conservative governments are implementing radical changes in labour law.

The reforms have provoked widespread industrial action, in particular in Victoria, and appear to have caused a backlash against the more restrained labour market changes proposed by the federal opposition.

However, Labor strategists are well aware that the polls may be misleading. A federal election is more like a series of regional elections than a national poll, and Labor is vulnerable to local problems in some states.

The government has hopes of picking up three or four seats in the eastern seaboard states, and may win two or three seats in Victoria if the anti-conservative backlash there continues.

But Labor is defending four marginal seats in Western Australia, where its prospects could be damaged by the impending trial of a former premier and a difficult state election in February.

In South Australia, up to five marginal Labor seats could be in danger, because of the unpopularity of the state Labor government and changes in electoral boundaries.

Mr Keating implicitly acknowledged these problems last month by ruling out an election before Christmas.

On the face of it, delay looks like a dangerous strategy against a background of economic growth of about 2.1 per cent a year, compared with a required rate of about 4 per cent if unemployment is to be significantly reduced.

But if the polls are right, the electoral impact of slow growth and continued high unemployment may be diminishing, perhaps because of "compassion fatigue" among the 89 per cent of voters who are in work.

If the trend continues, Mr Keating may be tempted to plump for a quick election, possibly as early as mid-February. Labor's pollsters and advertising advisers were called in last week to advise the prime minister on timing.

Mr Hewson is expected to try to recapture the initiative tomorrow by announcing modifications to Fightback, including exempting food from the GST and postponing cuts in unemployment benefits.

Surveys suggest that such changes would weaken opposition to Fightback and make it more difficult for the government to continue to divert attention from the failures of its economic policies.

Nevertheless, Mr Keating has shown that it is too early to write off the government. Labor may not win the election, but it no longer fears a landslide defeat. That is more than many Labor MPs expected when the prime minister took office a year ago.

NEWS IN BRIEF

Delay on telecoms directive sought

FRANCE will today ask its European Community partners to delay applying an EC directive to create open competition for public telecommunications equipment contracts until European telecommunications suppliers obtain improved market access to the US and Japan, writes William Dawkins in Paris.

Mr Dominique Strauss-Kahn, industry and trade minister, said the government had asked the British EC presidency to propose discussion of such a delay at a meeting today and tomorrow of ministers responsible for the internal market. "We cannot open our markets if the countries to which we open do not behave in a reciprocal way," he said.

The directive, to take effect from January, will let foreign suppliers bid on equal terms with European producers for public telecommunications equipment contracts.

EC tariff cut plans

The European Community yesterday presented trading partners in the Uruguay Round of global trade talks with a list of proposed tariff cuts spanning the range of farm and industrial products, writes Frances Williams in Geneva.

The move is expected to unblock the stalled tariff negotiations in the 108-nation round, which are intended to cut import duties by at least 30 per cent.

Kvaerner deal

Kvaerner, Norwegian engineering, shipping and shipbuilding group, has won a contract worth NKr400m (£39m) for fabricating the drilling module for the Heidrun production platform in the North Sea, writes Robert Taylor in Stockholm.

The order from Conoco Norway, the field's development operator, will be carried out in Kvaerner's yard at Egersund south of Stavanger by July 1994.

Japan urged to open its rice market

By Robert Thomson in Tokyo

MR Frans Andriessen, the EC external affairs commissioner, yesterday pressed Japan's government to take a "political" decision to open the country's rice market, to ensure the success of the Uruguay Round of multilateral trade negotiations.

Japanese politicians have recently indicated willingness to be "flexible", but Mr Michio Watanabe, the foreign minister, yesterday told Mr Andriessen he could not promise foreign rice would be allowed to enter the country.

"A negotiator should not commit himself unless he is sure that whatever he promises can be delivered," Mr Watanabe said. As he spoke, Japanese farmers held their second day of protests in Tokyo, including a big rally and another tractor drive through the city's streets.

Mr Andriessen encouraged Tokyo to accept the tarification of rice, replacing the existing import ban with tariffs. Japanese officials estimate that an initial tariff on rice is likely to be around 700 per cent, and will insist that tariff reductions proceed more slowly than on other products.

Japanese officials said they were pleased the EC appeared ready to submit extensive lists of industrial products and suggested tariff reductions. Tokyo was angered earlier this year when both the EC and US missed deadlines for the submission of these product-by-product lists, and there has been concern that the Uruguay Round could falter on industrial, not agricultural, issues.

The industrial products issue is of particular concern to Mr Watanabe, who wrote strongly worded letters of criticism to the US and EC in April and who, as a faction leader of the ruling Liberal Democratic Party, is likely to play an important role in any "political" decision on rice.

Andriessen: encouraging the replacement of ban with tariffs

Nafta to be signed as opponents start campaign

By Nancy Dunne in Washington

US OPPONENTS of the North American Free Trade Agreement, due to be signed in Washington today, are about to launch an advertising campaign against it.

Critics of the US-Canada-Mexico deal say it is "a wrecking ball" aimed at the US economy and a potential environmental disaster.

The Mexican government wants Nafta passed as soon as possible: it expects a current deficit of $20bn this year and sees it as essential to attract foreign capital.

The Economic Strategy Institute in Washington yesterday recommended far-reaching changes in the agreement. It wants US textile quotas from other exporting nations shifted to Mexico in order to prevent job losses in the US industry.

Bank deal aims to lift E Europe trade

By John Lloyd in Moscow

AN agreement aimed at restoring trade between Russia and east European states through rapid settling of accounts between their main commercial banks was signed in Moscow yesterday.

It also marks an attempt to begin their integration into the European banking system by using the Ecu as the basic unit of account.

Trade between these states, former members of the Comecon trading system, has largely been conducted by barter in the past two years since the break-up of the Communist bloc. The volume of trade has plunged to a fraction of former levels.

Mr Dominique Rambure, a director of the Italian San Paolo Bank and honorary chairman of the Ecu Banking Association, said yesterday the agreement would allow the participating commercial banks to clear accounts with each other within 24 hours. A line of credit would be opened by the European Bank for Reconstruction and Development which would guarantee all banks against default.

The participating banks are the Russian Foreign Trade Bank, the IBEC Bank and the International Moscow Bank in Russia; the Bank Handlowy and Powszechny Bank Kredytowy in Poland; the Komercni and Investicni banks in Czechoslovakia; the Inter Europa Bank in Hungary; and the Private Bank and the Bulgarian Post Bank in Bulgaria. All will be linked through the Swift communications system.

"This will allow these countries to rebuild their payments and trade relationships which have collapsed. It will give them quick and secure payment and it will connect them with the European clearing system," said Mr Rambure.

The drop in trade between Russia and her former partners was one of the sharpest on record - around 60 per cent in Russian exports and imports last year. A further decline in trade has been forecast for this year.

EAST EUROPEANS in joint ventures believe their western partners do not understand local conditions and lack financial means, a survey by accountants Deloitte Touche Tohmatsu has shown, writes Andrew Jack. Analysis of more than 168 joint ventures in six countries reveals considerable differences in perceptions between western and eastern partners, and between headquarters and local staff.

Nearly two-thirds of western managers based in eastern Europe would not recommend joint ventures to new investors, while all of their headquarters' managers still would.

Eastern partners believed their counterparts had too high and too short-term expectations for profit. More than a third of western partners admitted their decision to invest in the east was based on unrealistic expectations.

Mixed signals in world steel markets

David Dodwell and Nancy Dunne on barriers and liberalisation

STEEL exporters can be forgiven for feeling confused.

On the one hand, the European Community is imposing dumping duties on east European exporters, and the US is hurling a blizzard of duties at steel exporters in Europe, Asia and south America.

On the other, negotiations resumed this month on a Multilateral Steel Agreement aimed at demolishing tariffs, dismantling non-tariff barriers, and cutting steel subsidies.

Is the industry being liberalised? Or is it headed for conflict and protectionism? How can the celebrations of US steel-makers over price rises after the imposition of duties on foreign competitors fail to contradict aims of free trade in steel? How can this debate occur without reference to the chronic over-supply of steel that underlies the present conflict?

US trade officials argue there is no contradiction. They say the countervailing duties announced two weeks ago target *past* sins – specifically EC subsidies to European steel makers. The MSA would set a liberalising programme for the future.

EC officials insist this is disingenuous. The duties, which are expected to be followed in January by a deluge of dumping actions intended to punish exporters who allegedly sell at below cost, have come swiftly after the expiry in April of import restraints that have protected the domestic US steel industry for most of the past decade.

These restraints, agreed by US trading partners in the guise of "voluntary" restraint agreements under threat of anti-dumping and countervailing duty suits, were imposed on EC member states in 1982 and the rest of the leading exporting nations in 1984.

"Our impression is that the US is just trying to get rid of imports," an EC official said this week.

Some steel industry experts in the US would not disagree. As domestic US manufacturers have celebrated price increases in recent weeks of up to 5.6 per cent, one producer boasted to the Wall Street Journal: "It's going to bode well for domestic steel... The foreign people are staying at home right now."

Such confidence may be premature, at least for traditional suppliers in large integrated steel mills. Analysts say the future for the US industry lies in the mini-mills – high-productivity, high-technology plants – such as those created by Mr Ken Iverson of Nucor.

Nucor could be said to be the most successful US steel company of the past two decades. It has pioneered the use of a cost-effective new steel-making technology called thin-slab casting to become one of the world's lowest-cost steel manufacturers.

Mr Christopher Plummer, a Pennsylvania consultant with RSI Metal Consulting, said that in the long run US steel companies had more to fear from the mini-mills than foreign competition: "In less than 15 years mini-mills could be controlling one-third of the US sheet market," he predicted.

"Before 1988 there were no mini-mills involved in big structural products. Foreign companies controlled over one-third of the market. Today mini-mills are virtually dominating the production."

Perhaps, then, the combined assault of countervailing duties and dumping actions is intended to buy time for efficient mini-mills to replace uncompetitive integrated steel mills. All that Mrs Carla Hills, US trade representative, has said is that she hopes a multilateral steel agreement would eliminate "trade-distorting practices that have plagued this industry".

However, neither the Multinational Steel Agreement talks nor the dumping and subsidy cases are addressing the fundamental issue of overcapacity in the world steel market.

"Even if demand were high and the industry was at something approaching full capacity, there will still be downward price pressures," says Mr Michael Finger, a World Bank economist.

EC officials agree. While recession has aggravated problems, they see the high fixed cost structure of the steel industry as forcing producers to squeeze the last possible tonne of steel out of each plant: only those plants with high utilisation rates stay profitable.

They nevertheless see problems in an MSA that fails to address the problem of oversupply. In the EC, new steel capacity tends to be agreed only when old plants are taken out of production to offset the new.

They are also concerned that if the US duties succeed in shutting out a large proportion of the 10m tonnes of steel products currently imported every year, then other countries (including EC member states) will suffer as exporters target new markets for their output.

As a result, there are likely to be intense foreign pressures on the US to agree new VRAs giving foreign producers at least limited access to the US market.

The US steel companies insist they will not succumb to government pressure to accept VRAs. But because they expect to have difficulty in proving that imports have inflicted injury - a precondition for the US International Trade Commission making the recently announced duties permanent - it is thought they may have no alternative, as long as price floors are set.

All this provides a puzzling backdrop to renewed negotiations aimed at a trade liberalising MSA. According to one industry lawyer, the US wants to restart the MSA talks to impose discipline on subsidies in the steel industry. Under the MSA, 95 per cent of all subsidies would be eliminated. Waivers could be allowed for environmental purposes, research, worker assistance and company closures. Last March the US agreed that those subsidies would be permissible but actionable.

For the remainder of the 21 countries negotiating the MSA, it is the "but actionable" that causes concern: "It is the US threat of unilateral action, in the form of countervailing duties and dumping charges, that have brought people to the table," one negotiator said.

The next meeting on the MSA is pencilled in for February next year, when the Clinton administration will still be polishing its buttons. Meanwhile, there are 72 US dumping actions – expected on January 26 – to be contended with.

"Whether MSA talks resume or not, that looks from here like a declaration of war," an EC official said.

OECD ECONOMIC OUTLOOK

'Sombre' prospects for immediate growth

The OECD sees high budget deficits as limiting scope to stimulate economic demand. Reports by Peter Marsh

SUBSTANTIAL recovery across the world's richest nations has been postponed once again, the Organisation for Economic Co-operation and Development said yesterday.

In its latest biannual Economic Outlook*, the OECD said economic expansion would be held back by the combination of high consumer and business debts, rising unemployment, tight monetary policies and weak confidence.

The organisation, which represents 24 industrial nations, supports moves towards lower interest rates across the region. It suggests that the block on the Bundesbank cutting its credit rates soon – a development which would open the way to easier monetary policy across Europe – would be removed if Bonn acted quickly to reduce its financial deficit.

Describing the immediate outlook for growth across the OECD as "relatively sombre", the OECD says the scope for governments generally to stimulate demand by fiscal measures is "very circumscribed" because of the high budget deficits in many developed nations. A brighter note is the progress made in many countries in bringing down inflation, even though this has often been largely a consequence of extremely weak demand pressures.

Also, growth in world trade has remained fairly high, partly because of the strengthening in the economies of regions outside the OECD, including south-east Asia, south America and the former communist nations of eastern Europe.

The OECD says: "Over the coming months the negative forces which have slowed OECD economies are unlikely to dissipate rapidly. Confidence is currently weak in most OECD countries and is likely to revive only gradually."

Over the next year, the balance of risks may push the world economy into another period of only weak growth, the report says. There is a danger that "continued indebtedness problems and weak confidence will delay recovery and that German inflation and interest rates will take longer than expected to ease."

Across the 24 nations of the OECD, the organisation's economists believe real economic growth next year will be 1.9 per cent compared with an OECD estimate of 3 per cent in June. Growth in the OECD this year is expected to be 1.5 per cent, as opposed to the 1.8 per cent forecast six months ago.

However, putting a more up-to-date gloss on the OECD's forecasts, Mr Kumiharu Shigehara, the organisation's chief economist, said yesterday that on the basis of recent economic data he thought growth in the US next year would probably be half a percentage point higher than in the OECD's formal projection, while growth in Germany would be half a percentage point lower.

These two developments would cancel each other out, leaving the organisation's overall prediction for growth across the region in 1993 unchanged. The group has revised down its growth forecasts substantially for Italy and Britain, where in each case the increase in output next year is now expected to be roughly half the amount it forecast last June (see table).

The June forecast for Germany referred only to western Germany and is therefore not strictly comparable to the current one. In the case of the US, Japan, France and Canada, growth in 1993 is projected at about two-thirds of the level forecast six months ago.

Next year is expected to be the third in a row in which OECD growth is less than 2 per cent. Among the worst affected nations are Britain, Canada, Finland and Sweden, each of which will have seen their economies shrink in two years out of three by the end of this year. Unemployment is expected to climb by the end of next year to 34m, or 8.4 per cent of the OECD labour force, an increase of 10m jobless people since mid-1990. Fear of job losses has sapped confidence among consumers, which the OECD says is a big factor holding back a recovery.

With many countries suffering from weak business activity, "the question arises as to whether the stance of macro-economic policies can be adjusted somewhat to support demand in the near term", according to the OECD.

The OECD lists several measures under discussion to boost growth:

● Lower interest rates. In countries with weak inflation and low demand, "there would be a case for easing monetary conditions more significantly [than in the past few years]".

● Modest measures to boost state spending. While the increasing budget deficits in many countries make large programmes of increased government spending inappropriate, there may be a case for temporary measures to loosen fiscal policy or focused schemes to spend taxpayers' cash on investment.

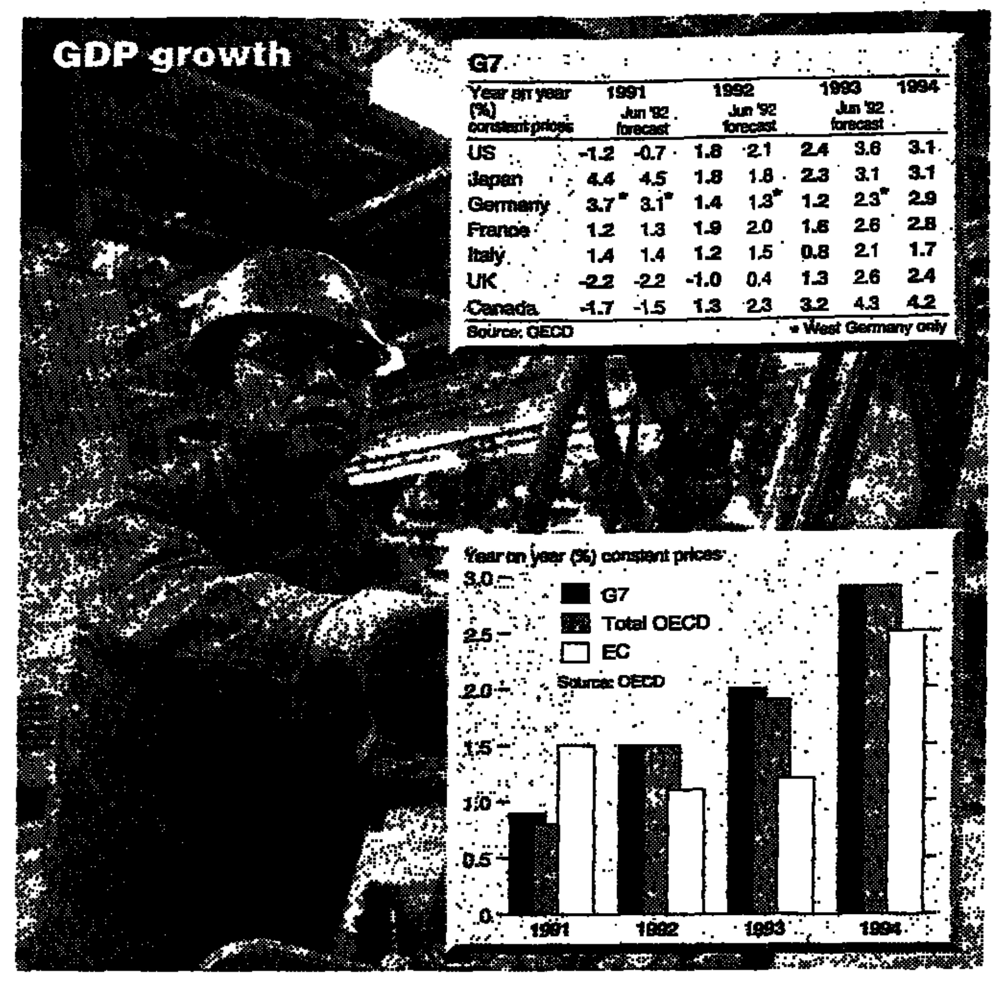
● Looser monetary policies in Germany. Lower interest rates across Europe would be helped if the Bundesbank were to change its policy of keeping borrowing rates high.

● Devaluation. While devaluation by some countries, and Italy and Britain leaving the system, provided a short-term economic boost by making exports from these nations more competitive, the report warns that such improvements "have often been quickly eroded by higher inflation".

The low demand across the OECD has produced one bright spot in that the OECD-wide inflation rate is expected to be a weak 3.5 per cent this year, falling to about 3.2 per cent next year and about 2.5 per cent by the end of 1994 – the lowest rate since 1960.

World trade is projected to increase by 4.7 per cent this year, 4.9 per cent next year and 6.1 per cent the following year. These numbers assume that the Uruguay Round of the world trade talks is settled amicably.

OECD Economic Outlook No 52, OECD Publications, 2 Rue André Pascal, Paris Cedex 16, France, or HMSO. FFr 110, or equivalent price in local currencies.



G7 Year on year (%) constant prices	1991	Jun '92 forecast	1992	Jun '92 forecast	1993	Jun '92 forecast	1994
US	-1.2	-0.7	1.8	2.1	2.4	3.6	3.1
Japan	4.4	4.5	1.8	1.8	2.3	3.1	3.1
Germany	3.7*	3.1*	1.4	1.3*	1.2	2.3*	2.9
France	1.2	1.3	1.9	2.0	1.6	2.6	2.8
Italy	1.4	1.4	1.2	1.5	0.8	2.1	1.7
UK	-2.2	-2.2	-1.0	0.4	1.3	2.6	2.4
Canada	-1.7	-1.5	1.3	2.3	3.2	4.3	4.2

Source: OECD * West Germany only

Budget deficits show significant worsening

THE world's developed nations should take sterner measures to put their finances in order and reduce budget deficits, the OECD says.

Across the 24 nations in the organisation, a "significant deterioration" in budget balances has taken place in the past three years, with net state borrowing having increased by about 3 percentage points of the region's gross domestic product.

Some nations have markedly increased spending on social security and other transfer payments while growth in tax income has been held back because of weak economic activity.

The OECD says individual governments should do more to classify how much they spend on "productive" investment that boosts economic activity – covering areas such as on training and infrastructure projects – as opposed to social security payments which do little more than place a floor under people's living standards.

Greater competition in services should be introduced

According to OECD calculations, high government borrowing would not be a worry if the cash gained in this way was spent largely on investment.

However this year only four OECD nations – Japan, Denmark, Finland and Austria – are expected to spend more on investment than the total they raise through borrowing on capital markets. In the other countries, a significant fraction of borrowing is channelled instead to transfers, such as social security and interest payments.

To cut borrowing, governments should examine whether to charge consumers for using some state services, while greater competition in services should also be introduced to increase efficiency.

In the longer term, governments will have to investigate the funding implications of the rise in numbers of elderly people, which is likely to push up social security bills.

Britain top when it comes to hitting the bottom

THE recession in the UK has been significantly worse in terms of lost output than in all but two of the other periods of economic decline affecting the world's richest nations over the past 20 years, according to the OECD.

In what amounts to a statistical guide to recessions, economists at the OECD have analysed all the periods of economic decline since the 1970s in the seven leading industrial countries – the US, Japan, Germany, France, Italy, Britain and Canada.

Out of 28 such downturns, the current British recession scores in the bottom three in terms of what the OECD calls the "output gap" – a measurement of growth in gross domestic product.

Of the total of 28 downturns considered by the OECD – four for each of the seven countries – the only two periods which have seen an output gap of a comparable size to the one now affecting Britain are the current Canadian recession and the Canadian recession of the early 1980s.

During the 21 periods of downturn which took place in the seven countries until the mid-1980s, the level of GDP at the trough for each period was an average of 3 per cent below the trend for the nation concerned.

This indicates that the current British and Canadian recessions are about twice as deep as the average, using this particular measure of lost output.

According to this measure, the current UK recession is significantly worse than the other periods of decline in the UK economy since the early 1970s, which took place around 1971-72, 1974-75 and 1981-82. The current downturns in Germany, Italy, France and Japan are in each case shallower than the average for all 28 periods of decline which have involved the seven nations since the early 1970s.

According to the OECD, the recession in the US which now appears to be ending is about the same in terms of depth as the average for the periods of economic decline over the period.

Slack in markets expected to restrain price and wage rises

Inflation unlikely to trouble UK

THE UK economy is suffering from so much slack that inflation is unlikely to be a problem in the foreseeable future, according to the OECD.

The organisation envisages a weak recovery next year, with the economy expanding by 1.3 per cent after a 1 per cent decline this year. In 1994, output growth is expected to be higher, at 2.4 per cent.

The pound's devaluation and the three percentage point cut in interest rates since September "have removed some obstacles for recovery" but the outlook is clouded by an unusually high degree of uncertainty, the report says.

Real output is expected to grow "modestly" in the first half of next year, reflecting a slow recovery in demand by consumers as the decline in house prices starts to ease and people gain the benefits from lower borrowing costs.

After mid-1993 a broadly based expansion in the economy can be expected, as "confidence improves, the drop in consumer durables spending bottoms out, the savings rate falls, destocking ends and the measures announced in [last month's Treasury] Autumn Statement [to boost output] take effect".

Although the pound's devaluation since Britain left the European exchange rate mechanism three months ago will push up inflation through higher import prices, the effects of the devaluation on domestic price and wage setting "are expected to be damped by considerable labour and product market slack".

The OECD expects inflation as measured by the deflator in growth of nominal GDP to be 5.4 per cent this year, falling to 5 per cent next year and 4.1 per cent in 1994.

The OECD outlook for the UK assumes that the government maintains a firm policy on trying to damp price rises and maintains the credibility of financial markets.

Unemployment is expected to rise from 10.1 per cent of the labour force this year to 10.8 per cent next year.

BRITAIN'S ECONOMY

	1991	1992	1993
Gross domestic product	-2.2	-1.0	1.3
Domestic demand	-2.8	-0.6	0.6
Private consumption	-2.1	-0.3	0.7
Govt consumption	2.8	0.8	1.4
Gross fixed investment	-9.9	-3.0	-0.6
Exports	0.3	3.2	5.8
Imports	-3.1	6.2	4.0
Industrial production	-5.3	-0.9	1.0
Current account deficit ($bn)	11.1	22.0	24.0

All figures are %. Year on year growth, except where stated. Source: OECD.

WORLD BANK ON DEBT

Flow of private capital 'may slow'

THE wave of private capital that has flooded into developing countries in the past three years could prove unsustainable in the years ahead, the World Bank warns in its latest annual report on developing country debt, published today.

Thanks largely to the surge in private investment, external finance for developing countries will this year reach a third more than two years ago, at $134.3b, the bank estimates. Last year, the net flows of resources to these countries totalled $115.2bn. The bank adds that the poorest countries have not benefited from this financing boom, being forced to rely on official loans and grants which have grown only marginally this decade.

The private capital on which the middle-income countries have come to rely could prove a double-edged blessing, Mr Masood Ahmed, head of the bank's debt and international finance division, warned. "There is some degree of concern about how sustainable the new flows will be," he said, commenting on the report.

Much of the new private capital has been driven by a search for higher returns, against a background of low or falling interest rates in developed countries. Such capital flows could be reversed if investment returns in the developed world rise. Also, it represents a redirection of a small portion of the total portfolios of institutional investors in developed countries – a one-off process which will not lead to a sustained flow of capital.

"Voluntary private capital flows provide welcome financing for development but may become a mixed blessing if mismanaged," warns the bank. As financial markets around the world become more integrated, allowing capital to move more rapidly, pressure will grow on policy makers in developing countries. "Both good and bad policies and macroeconomic conditions will be rewarded or punished sharply by international investors," the bank says.

"Portfolio debt flows, especially short-term deposits, are more volatile than long-term commercial bank loans and trade financing. Likewise, portfolio equity flows in emerging markets can be taken out fast at low cost."

A further concern highlighted by the bank is that foreign direct investment is unlikely to provide a net source of finance over the medium term. As investments made in recent years start to yield results, the flow of profits out of the developing world will come to exceed new capital being invested.

The main benefit of this investment "may lie more in the transfer of technology than in medium-term balance of payments financing," the bank says. Foreign direct investment has amounted to $38bn in 1992, up from $34bn last year and just $24bn in 1990.

By contrast, the bank says that the growing indebtedness of developing countries as a whole should not be a matter for concern, provided it fuels economic development and stimulates exports rather than simply being used to plug fiscal deficits. Total foreign debt of the 116 countries under scrutiny leapt by nearly $100bn last year, to $1,700bn.

During 1992, portfolio investment to developing countries has amounted to $27.2bn, up from $20.3bn in 1991. While last year these flows were driven largely by a return of flight capital held abroad for tax or other reasons, to Latin America, this year they represent growing investment in a wider range of countries, principally the East Asia and Pacific region.

Institutional investors such as insurance companies and pension funds have become more important as providers of capital, and there has been a greater use of debt rather than equity: bonds and loans this year are expected to total $26bn, up from $14bn in 1991, while portfolio equity investment has risen from $7.6bn to $8.1bn.

Net transfers of finance to the developing countries – total net flows less debt servicing and profit remittances – rose this year to $56.3bn from $37.7bn.

World Bank Debt Tables 1992-93. Volume I Analysis and Summary Tables; Volume II Country Tables. The World Bank, 1818 H Street, Washington DC

Richard Waters

Russian debt move seen as likely to ease negotiations

THE move by Russia to take on the external debt of most of the other former Soviet states should eventually make restructuring of the debt easier and hasten the return of the republics to international creditworthiness, the World Bank says.

It adds, though, that the difficulties experienced in servicing the $67bn of debts of the former Soviet Union in the past year are likely to continue for some time.

This is because of the "large stock of arrears on FSU [former Soviet Union] debt run up in 1992", and the fact that 52 per cent of the total debt falls due for repayment over the next three years.

By the end of November, four republics had reached agreement for Russia to assume responsibility for their share of the former Soviet debts, while seven more were in negotiation.

"The emerging streamlined arrangement can strengthen the creditworthiness of all FSU republics, since it will establish a clearer legal status in negotiations with creditors," the bank says.

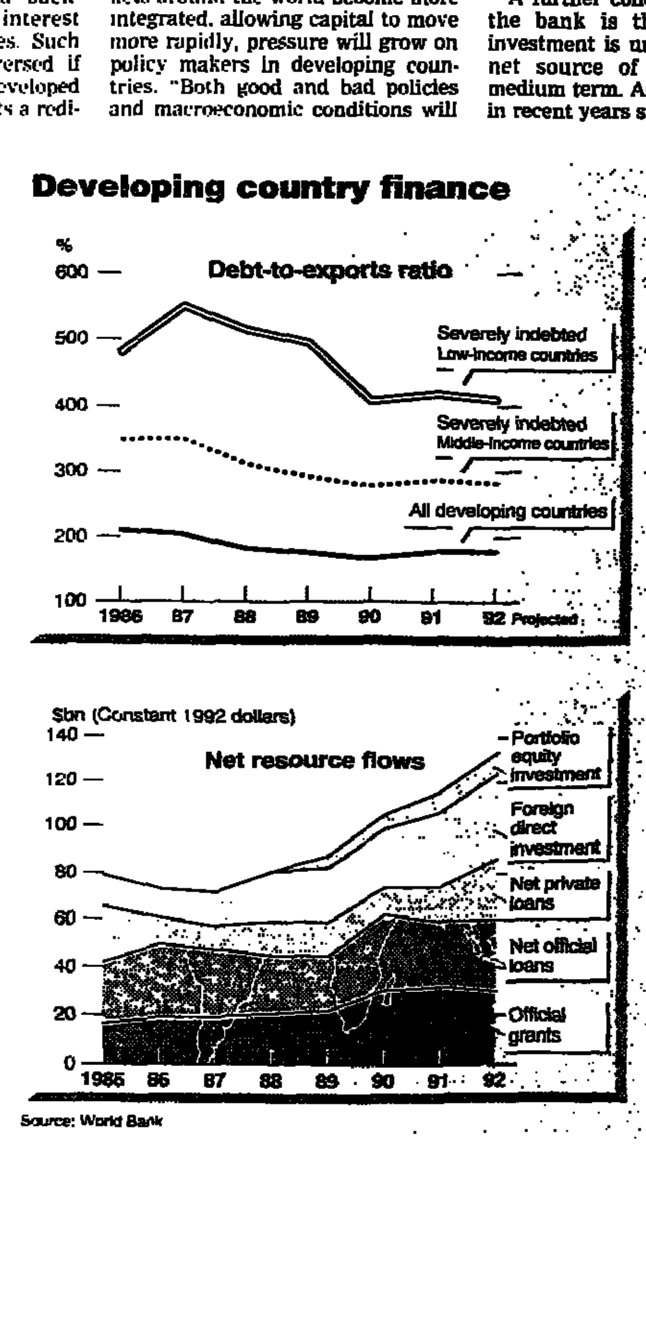
The bank attributes much of the present difficulty to the doubling of foreign debt in the five years before the Soviet Union broke up, fuelled by so-called "perestroika loans" from western government agencies and banks.

Further finance will be needed, though, before the former Soviet states can shake off this legacy. "The restoration of external viability and creditworthiness of FSU republics will require a period of sustained economic reform which, to be successful, must be adequately financed," the bank says.

The bank also points to inadequacies in reporting and monitoring procedures in Russia and other republics, which have made the management of external debts more difficult. Most are now moving to adopt better debt-management policies, making it easier for the authorities to control the growth of foreign debts.

Richard Waters

Developing country finance



Source: World Bank

Plight of poor countries belies claim that the crisis is ended

MORE than two dozen of the world's poorest countries face continuing debt problems and need greater forgiveness of their debt burdens, the World Bank says today.

These countries, which have for more than a decade faced problems in servicing debt owed mainly to official creditors, belie the fast-growing conventional wisdom that the debt crisis has come to an end.

"External viability for these countries remains to be established and will require, in many cases, stronger adjustment policies and additional forgiveness of their debt burdens," says the bank in an assessment of the 10 years of the developing country debt crisis.

However, it adds later that "the debt crisis facing middle income countries worldwide is past". According to bank definitions, middle-income countries include Latin America's largest debtors, such as Brazil, Mexico, Venezuela and Argentina. These countries' main concern is now to maintain and strengthen their market access.

Preserving market access also remains an important concern for a group of other countries – it cites 14, including China, India, Indonesia, Hungary and Algeria – that have maintained debt servicing throughout the 1980s.

However, for the severely-indebted low income countries – most of them in Africa, owing most of their debt to official creditors – the picture remains bleak.

The arrival of new aid claimants in eastern Europe reinforces fears of traditional recipients

Even with the proposed "Trinidad Terms" treatment of their debts to export credit agencies – which is more favourable than existing treatment – and a total write-off of all their aid debts "the restoration of external viability may require additional action by official and commercial creditors", the bank argues.

The poorest countries, most heavily dependent on concessional foreign aid, are also suffering a decline in development assistance, the bank says, adding that this is due to constrained aid budgets in developing countries.

The statement will reinforce concern that the entry of new aid claimants in eastern Europe and elsewhere will diminish the aid available to traditional beneficiaries.

The bank also acknowledges that for some smaller countries "commercial banks have little incentive... to incur the administrative costs of regularising the debt in some countries that account for only a small fraction of their balance sheets."

In other countries, conditions in the debtor countries have hampered negotiations.

In either case, "there is no simple solution to the commercial bank debt overhang of these countries."

The Bank rejects the idea of an officially-created facility to buy back this debt at a discount.

It takes the view that the current case-by-case approach of the debt strategy offers the best hope.

Overall debt of developing countries – including the former Soviet Union, added to the figures for the first time – are expected to rise this year to $1,703bn, from $1,608bn at the end of last year.

The main factor behind this was the depreciating dollar, which swelled the value of non-dollar denominated debt, as well as new debt flows. However, debt ratios are not expected to worsen this year because of improved economic performance and trade conditions.

The overall debt-to-exports ratio is expected to stabilise at about 178 per cent, while debt-to-GNP will stick at around 37 per cent.

This hides a slight improvement in the overall ratios for those countries defined as highly indebted.

Stephen Fidler

Regulator demands British Gas break-up

By David Lascelles, Resources Editor

OFGAS, the gas industry regulator, yesterday demanded the break-up of British Gas into two wholly separate businesses, claiming that nothing less would bring effective competition to the gas market.

In a submission to the Monopolies and Mergers Commission, the office called for the removal of British Gas's transport and storage arm from the trading arm which buys and sells gas. The new transport and storage business, which would include the national gas pipeline network, would be transferred into a new company under separate ownership and management.

The report draw a sharp response from British Gas. Mr Robert Evans, chairman, said last night: "While the gas business is under review it is totally inappropriate for public statements of this nature to be made. We shall continue to discuss this matter with the MMC."

Ofgas's demands mark the culmination of a long-running and frequently acrimonious battle by Sir James McKinnon, the gas regulator, against what he sees as British Gas's dominant position in the gas market. Last summer British Gas itself requested the MMC inquiry in the hopes of heading off Sir James' attacks. But it proposed to put the transport and storage business into a separate division rather than selling it off completely.

Although Ofgas has hinted that it wants a break up, yesterday's report, prepared by Mr Greg McGregor, the director of competition and tariffs, marks the first time Ofgas has laid out clear demands.

The report says: "We recognise that the break-up of a large, complex, integrated business such as British Gas is not a simple matter and therefore see the need for transitional arrangements. However we believe that all structures short of full separation should be seen as a transitional phase within the context of a commitment to full separation."

The report says that so long as British Gas owns the pipeline network it would be able to discriminate against other companies wishing to use it. Even if "Chinese walls" were set up to reinforce management independence, it would still acquire information about its competitors' business by watching their shipments.

Ofgas denounces British Gas's proposals for a divisional hive-off as "a paper separation" which would not resolve the company's dilemmas, nor would it change management attitudes. Anything short of complete break-up would mean that "conflicting interests will have to be resolved sometimes to the disadvantage of independent suppliers."

Recession fuels state borrowing

BRITISH government finances continued to show the scars of recession last month as the public sector borrowing requirement jumped to £2.18bn from £1.66bn in October and just £293m in November last year, writes Peter Norman.

The Central Statistical Office said the deficit for the first eight months of the financial year amounted to £22.3bn compared with £9bn in the same period of 1991-92 and the latest official forecast of £37bn for the 1992-93 PSBR, announced in last month's autumn economic statement.

November's deterioration in UK finances was slightly less than the consensus forecast on financial markets, where the figures had little impact because the government has overfunded its borrowing requirement so far this year.

Privatisation proceeds in November were close to zero for the second month running.

November retail sales fall disappoints City

By Peter Norman, Economics Editor

RETAIL SALES declined slightly in volume terms last month, suggesting lower interest rates since Black Wednesday have failed to stimulate a rapid economic recovery.

The Central Statistical Office said volume sales fell 0.1 per cent on a seasonally-adjusted basis between October and November after a 0.2 per cent increase between September and October.

Sales in the latest three months, which the CSO regards as a more dependable measure of trends, were up 0.7 per cent compared with the previous three months and 1.4 per cent higher than in September to November last year.

The latest figures came as a slight disappointment to the City, where the average of forecasts had pointed to a 0.2 per cent increase in volume sales last month.

The Treasury said the figures were consistent with a modest upward trend in recent months that had brought retail sales back to record levels last seen at the start of 1990.

November's sales performance has left retailers hoping for a late rush of sales before Christmas.

Mr Hugh Clarke, trade policy director at the British Retail Consortium, which says it represents more than 90 per cent of British retailing companies, said sales in December were already showing a better trend.

Mr James May, the consortium's director-general, said retailers were "cautiously optimistic for a reasonable Christmas" but warned that any significant improvement in retail sales was not expected until "well into the new year".

The consortium said sales of traditional Christmas gifts started slowly last month with the average sale value lower than a year ago.

Ruling adds to confusion on Sunday trading

By Neil Buckley

THE European Court of Justice threw the retail trade into confusion yesterday, as it ruled that laws regulating Sunday trading in England and Wales did not clash with European trade laws and were enforceable.

Many retailers said they would go ahead with plans to open this Sunday – the last before Christmas. They joined MPs and both sides in the Sunday trading debate in calling for the speedy introduction of new legislation to replace the 1950 Shops Act, widely seen as outdated and unworkable.

"The government should bring forward proposals on Sunday trading as a matter of urgency so that the present real mess can be cleared up without delay," said Mr Tony Blair, shadow home secretary.

The Keep Sunday Special campaign group welcomed the decision as a "red letter day". Mr Bill Connor, deputy general secretary of the shopworkers' union Usdaw, said it was "good news for shopworkers under pressure to work on Sundays".

Retailers, including supermarket chains J Sainsbury, Asda and Tesco, and B&Q, the DIY chain, said they would open this Sunday, although some said they would seek legal advice about continuing to trade on Sundays after that.

The Shopping Hours Reform Council, which proposes partial deregulation of Sunday trading, played down the ruling, saying it had been "made politically irrelevant by the government's plans to introduce new legislation on shopping hours".

It expected many local authorities would not be prepared to spend time and money enforcing a dying law.

Even some of the councils that have most actively enforced the law in the past said they would wait until the ruling had been ratified by the House of Lords.

The European court was ruling on three separate cases referred to it by English Courts seeking verification of the Shops Act.

It rejected retailers' arguments that limited hours reduced their need to import goods from EC countries, resulting in a barrier to trade that contravened Article 30 of the Treaty of Rome.

Nelson Clifford Rush, master clogmaker, examines the products blamed for causing too much congestion in Hebden Bridge

Clogs foot the bill for popularity

By Ian Hamilton Fazey, Northern Correspondent

BRITAIN'S last volume manufacturer of industrial clogs, footwear of the 19th century working class, is facing an uncertain future because it has become too much of a tourist attraction.

Serious road congestion caused by visitors driving to Walkley Mill, in the north of England town of Hebden Bridge where the clogs are made, has prompted a public inquiry to decide whether a property development can go ahead to help raise £1m towards a new road, bridge and car park to ease the problem.

"Without it, Walkley Mill could end up popping its own clogs," said Mr Mark Clyndes, who bought Walkley Clogs from descendants of its founders six years ago.

The mill employs 11 clogmakers, but a refit following a fire in 1990 enabled him to bring in other speciality shops, creating about 90 jobs. Mr Clyndes now wants to build a 62-bedroom hotel, shops and housing near the mill in an £8m scheme.

There have been objections because of the intensity of the development and possible effect on other shops in the town.

Industrial clogs have been having a rough time in Britain since the advent of North Sea gas 30 years ago. Gasworks, where town's gas and coke were made by carbonising coal in tall, red hot retorts, were big customers. The wooden-soled footwear insulated workers' feet.

The market is down to 20,000 pairs a year, with Walkley claiming supplying ICI, Ford, London Brick, British Steel, and Rover and exporting to the Netherlands and the US. Walkley's clog sales will be worth £350,000 this year.

Major to press Bush for airline deal approval

By Paul Betts, Aerospace Correspondent

MR JOHN Major, the prime minister, will make a final effort to secure US approval for British Airways to acquire a 44 per cent stake in USAir for $750m during talks with President George Bush on Saturday.

The proposed share stake agreement expires on December 24. The deal, which would greatly boost BA's ambitions to become a global carrier through stakes in big international airlines.

Unless a last-minute breakthrough can be achieved, it now looks increasingly likely that the US administration will not clear the BA-USAir deal.

Failure to complete its partnership with the sixth-largest US carrier, would be a serious setback to BA's international expansion strategy.

The three biggest US carriers – American Airlines, United Airlines, and Delta Air Lines – have asked their government to block the BA-USAir deal unless it can secure greater access for US airlines into the UK market in return.

Mr Major will throw his weight behind UK proposals to liberalise the UK-US air transport market to help win US approval of the deal. But he is not expected to make any new concessions, although he is likely to warn President Bush of possible repercussions on the future of liberalisation if the two countries fail to agree.

NEWS: UK

Minister backs nationalist rights in Ulster

By Ralph Atkins

SIR PATRICK Mayhew, Northern Ireland secretary, yesterday fiercely defended the rights of the province's nationalists, offered regret if Britain had contributed to the island's sadness, and said a lasting renunciation of violence by terrorists would have "profound consequences".

In a speech designed to make clear his strict impartiality Sir Patrick went further than any of his predecessors in insisting that he was only a "facilitator of the expression of democratic will in Northern Ireland".

The province would remain part of the UK as long as a majority of its population wanted, he said, but he indicated that he would not embrace a Unionist agenda for reforming its government – in spite of the break down of political talks last month.

Mr Peter Robinson, deputy leader of the Democratic Unionist party, described Sir Patrick's "surrender speech" as "outrageous".

Addressing the centre for the study of conflict, at the University of Ulster, Sir Patrick said: "There is much in the long and often tragic history of Ireland for deep regret, and the British government for its part shares in that regret to the full."

Sir Patrick, however, was careful to avoid any hint that the British government would talk to Sinn Fein, the political wing of the IRA, unless it rejected violence. But "in the event of a genuine and established cessation of violence" the security apparatus set up in response to that violence would be reviewed.

Although terrorism in Northern Ireland's has lasted for two decades, Sir Patrick believed its problems would be resolved via cross party dialogue. He said the history of the European Community "shows us that historic conflicts can be resolved through realising that today's common interests actually far outweigh the aftermath of historic differences".

He said Yugoslavia was an example of which many in Northern Ireland had taken heed. In a recognition of the fears of Unionists, he said Yugoslavia "created a fresh understanding here that, properly understood, 'Brits out' means the ethnic cleansing of a million human beings".

Toyota expects £400m exports from UK plant

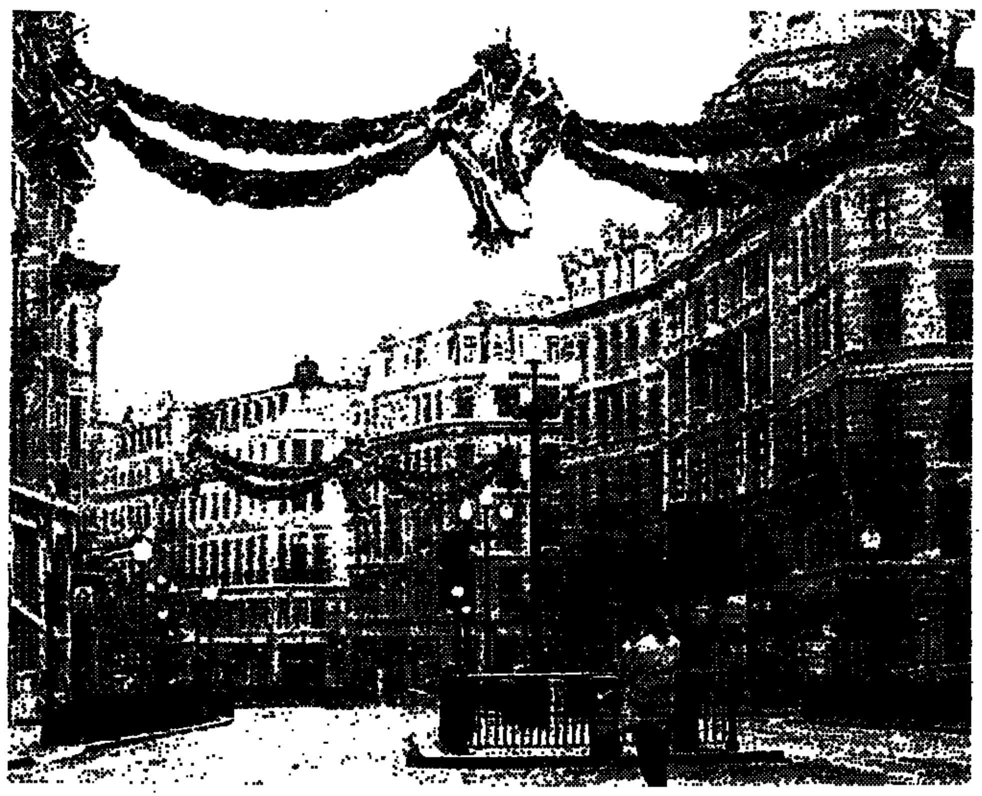
By John Griffiths

TOYOTA expects its UK car-making operations to contribute between £400m and £500m a year to Britain's external trade balance when production reaches 200,000 cars a year some time after the mid-1990s.

At a ceremony yesterday to mark the first production car off the line at Toyota Motor Manufacturing UK's £700m plant at Burnaston, central England, company executives also made clear that both "local" – European – content and production programmes have been accelerated.

Toyota expects output to reach 100,000 cars a year by the end of 1994, some six months earlier than expected. By then, European content of the cars is expected to be 80 per cent.

When 200,000 units a year is reached, Toyota will be employing directly 3,000 people at Burnaston and a further 300 at its £140m engine manufacturing plant at Deeside, north Wales.



Regent Street at noon yesterday: like Oxford Street it was closed for several hours after the blasts

Two bombs in London's West End

POLICE sealed off a large area of London's West End yesterday after two small bombs injured three people.

The first, in lavatories at the John Lewis Partnership department store in Oxford Street, exploded about half an hour after vague warnings had been telephoned to news organisations by callers claiming to be from the IRA. The second bomb, in a litter bin in Cavendish Square, behind John Lewis, went off ten minutes later as staff and customers were being evacuated.

Commander David Tucker, head of Scotland Yard's anti-terrorist branch, said the attack was part of the "obscene game" the IRA wished to play with the police.

He said both bombs appeared to be small, but it was "miraculous" more people had not been hurt. The casualties were taken to hospital with minor injuries.

Britain in brief

Government to press on with EC bill

The government has signalled its determination to press ahead with ratifying the Maastricht treaty, indicating that the European Communities (Amendment) Bill will be debated by MPs soon after the Christmas recess.

The announcement came as senior Labour politicians, including former leader Mr Neil Kinnock, urged the party to adopt a more pro-European stance in the ratification process.

The move will increase the pressure on Mr John Smith, party leader, not to take any action which would block or hinder the treaty's progress.

Council to cut 3,000 jobs

Birmingham City Council, England's largest local authority, has announced 3,000 redundancies in a package of cuts needed to keep within government spending limits. The redundancies come on top of 1,000 jobs lost through natural wastage.

Auditors want less disclosure

Companies should be required to provide far fewer disclosures in their annual accounts than the law currently demands, according to accountants Ernst & Young. The firm also called for simpler rules governing disclosures.

Life offices face changes

The government is to change the way it taxes UK branches of overseas life insurance offices, according to Mr Stephen Dorrell, financial secretary to the treasury. There are relatively few such branches, but the Revenue said their share of the life insurance market in the UK is significant.

MoD claim withdrawn

Backers of the campaign to secure vital submarine work for Plymouth's Devonport dockyard has retracted allegations that details of a dock project were leaked from the Ministry of Defence to the rival yard at Rosyth in Scotland. Mr Gary Streeter, the Conservative MP, said he accepted the ministry's assurances that no leak had taken place. The two yards are competing for the contract to refit the UK Trident submarines.

Gloom over Scots economy

The Scottish economy does not have the strength to pull itself rapidly out of recession, and unemployment is likely to go on rising for longer than in the south of England. That is the view of the Fraser of Allander Institute, Scotland's principal economic research organisation, which says the latest survey of business opinion pointed to poor industrial performance.

Revival seen in house market

The Royal Institution of Chartered Surveyors today reports what may be "the first sign of spring flowers" for the housing market, with increased activity in late November continuing – against the seasonal norm – into December. Its survey of market conditions in England and Wales for the quarter ended November 30, says the trend may herald a return of confidence next year.

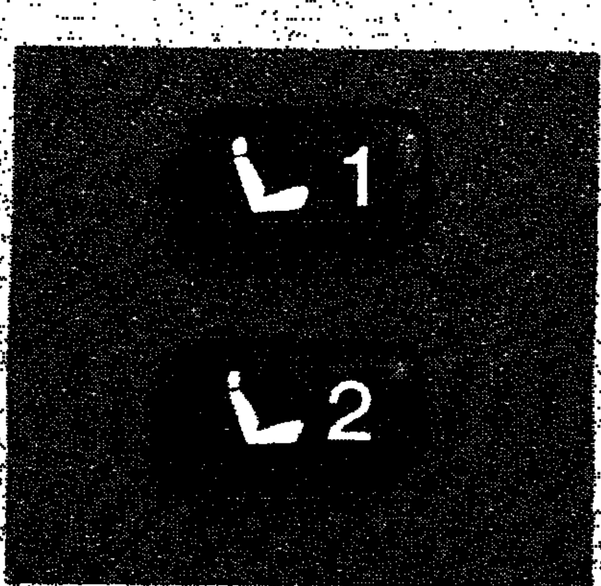
New watchdogs

A new set of rail watchdogs will be set up to guard consumers' interests after the privatisation of British Rail, the government said.

At the end of a year when making predictions in the financial markets might seem a dangerous exercise, Finance and the Family seeks some courageous experts' advice. Find out what they choose this Saturday.

Two bombs in London's West End

Although we all know men and women are made differently, *Lexus is the first car to have spotted it.*



Sit behind the wheel of a Lexus LS400, press a button and it recognises you. It adjusts the seat, the steering wheel, the outside mirrors, the safety belt and the headrest to the positions you've told it you like. It's the same but different story when your spouse gets behind the wheel and presses the other button.

But why is Lexus the first luxury car to come up with such a refinement? After all, comfort has always been highly individual. The answer is probably because the LS400 was built from scratch. And having a blank sheet led to clearer thinking about what it takes to make a car supremely comfortable. (It also led, incidentally, to Lexus having to take out hundreds of patents.) It meant instead of compromise and bolt-on solutions, Lexus could start at the beginning. With, for instance, a body design that's more aerodynamic than even many sports cars. With a pioneeringly sophisticated suspension system, to iron out life's little ups and downs. With a whispering 4.0 litre, V8 engine, seated, not on conventional solid rubber mounts but on vibration minimising fluid filled mounts. With a gearbox which, because it's computer controlled, produces gear changes which are barely perceptible. And with a fanatical resolve to eliminate noise.

Then we moved into the cabin and started to attend to the kind of comfort details which endear the LS400 to men and women, driver and passenger alike. There's the supple softly wrinkled leather upholstery, and the California walnut trim. There's the air-conditioning system which quickly, but very quietly, creates your ideal climate. And there's silence. Unless, that is, you turn on the seven speaker CD system and listen, for once, to your favourite music without any unmusical accompaniment from the car, or the road, or the world outside. But why not experience the LS400 by visiting a Lexus dealer? You'll soon spot the difference between the LS400 and traditional luxury cars.

LEXUS

THE LUXURY DIVISION OF TOYOTA

MANAGEMENT: MARKETING AND ADVERTISING

The commercial exploitation of Christmas has arrived in the former communist countries of Europe, much to the delight of entrepreneurs and consumers alike

Santa rises in the east

There may be little economic cause for seasonal cheer in much of central Europe this year. That, however, has not deterred the new entrepreneurs in the region from embracing the commercial possibilities of Christmas.

The appearance of oranges, bananas and the occasional forbidden fruit from the western consumer culture symbolised Christmas under communist rule. But with much of the central European retail sector having been privatised in the past few years, this season's festive symbols come straight out of western marketing textbooks.

Santa Claus, that most potent western symbol for gift-giving, is finding the region fertile ground. Polish Santa Clauses pose for pictures on Warsaw streets where Solidarity demonstrators used to confront the communist government while their Hungarian counterparts peddle Sony televisions and videos in TV advertisements.

The density of store and public decorations confirms the spread of Christmas consciousness among retailers and consumers alike, although the motive for their use is not entirely commercial.

In Romania's bleak capital, Bucharest, about 60 per cent of the stores in the city's two main shopping streets boast some decoration. But many are old and have been brought from home by employees, partly out of tradition but mostly to relieve the gloom.

That contrasts sharply with shops in Budapest, which are using fewer but higher quality decorations than last year, according to Dekorgraf, a company which designs and installs seasonal bunting in shops.

In Poland, marketing companies such as Multi-Investment, set up in 1989 by American Jacques Tourel, have used decorations as a way of stretching the holiday buying period. The company donated a 22-metre high Christmas tree that stands in the middle of Warsaw's Old Town square outside the Royal Castle. The tree went up on November 22 as a signal that the shopping season had begun, a tactic that appears to have been successful as many shops quickly followed with their own decorations.

"We want shopping to be a pleasure and not a last-minute duty, all done in a rush," explained Ivona Kochanska from Multi-Investment.

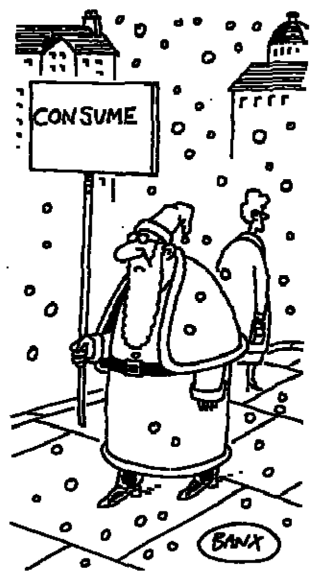
The Christmas decorations in Wenceslas Square in Prague are dwarfed by advertisements for big western brand-names, a development of which many residents approve. "It shows Prague as a world city. It is like Piccadilly Circus in London," said a 26-year-old bank official without a hint of overstatement. "It is much more colourful than it was before, and now it is possible to buy all the goods."

An informal survey by FT correspondents suggests that the novelty of western goods has yet to wear off, even if they remain beyond the reach of many consumers.

Petr Trybil of the Czechoslovak Chamber of Commerce says: "People seem to be buying more western goods, especially electronics which are expensive but not excessively so. I believe the reason is quality and, of course, the fact that they were not available until recently. But quality is becoming more important and there is a lesson there for us."

Eva Ruzekova, who runs a small, specialised Prague gift store, believes the high prices of western goods are mistakenly seen as a mark of quality. But she concedes that "they are practical and attractive and everybody would like one for Christmas."

An advertising executive said: "Western companies and Czechoslovak entrepreneurs are tapping into the perception of the country as a relatively wealthy place with a history of



a market economy behind it." "It is not too difficult to sell a product here."

Western goods also remain popular in Hungary where Philips, for example, has launched a Christmas competition with its electrical products as prizes. But some of the big retailers have adopted western marketing methods to sell local products.

Centrum Department Stores, the Hungarian state-owned general retailer, has given prominence to the products being promoted and has brought out its first glossy Christmas brochure.

Skala, Centrum's main rival, hired the Young & Rubicam advertising agency which created a cartoon character, the "Skala angel", for the chain's Christmas television spots.

Its efforts seem to have paid off: the chain's customers are spending 10 per cent more in real terms than last year, reversing a long decline.

Both retailers benefit from the Hungarian tradition of buying a television set, video recorder, washing machine or other expensive consumer durable to coincide with Christmas and provide a gift to be shared by all the family.

At Warsaw's Kidi Land, a small-scale version of Hamley's toy shop in London, sales are up 50 per cent this year over 1991. Its windows feature two displays of hand painted dolls from B. Altman's in Manhattan while, inside, the staff sport Father Christmas garb.

Polish television ads promote gifts for both children and adults, with Lego – a runaway success in Poland – and the Swiss Swatch watches featured prominently.

In Czechoslovakia, workers received their Christmas pay packets at the end of last week and sales in December are running 25 per cent ahead of previous months, according to Lubomir Staffen, commercial director of Kotva, a large Prague department store.

This year for the first time, Kotva has devoted a separate section within the store to Christmas gift ideas, including magnificent glass and giftware. "We have special departments offering western haute couture and luxury goods," Staffen says. "The market is there, and we want to tap it. But we must remember that most of our customers are ordinary people whose spending power has not increased at all in the last five years."

The biggest sellers throughout central Europe this year have been small consumer goods, such as do-it-yourself equipment and electronics, products that are also perennial favourites in the west. But the choice of some Christmas gifts might surprise western retailers.

In Hungary, gifts of deodorant – among other cosmetics – are persistently popular. It is no reflection on Hungarian hygiene, rather a hangover from communist times when vanity products were in short supply.

And what of central Europe's Santa Clauses? Do they think there is a future in western-style commercialism? One somewhat cold Santa who stands by the Multi-Investment tree in Warsaw and who lets parties of school children have their picture taken with him for 15,000 zloty a time, thinks he has found a niche.

"I'm a poser. That's what I do – I pose for pictures," he said. When the Christmas season ends he simply plans to don other costumes.

Reports by Christopher Bobinski in Warsaw, Vincent Boland in Prague, Robert Corzine in London, Nick Denton in Budapest and Virginia Marsh in Bucharest.

East European consumers are now embracing Christmas

Sweet reason is introduced to life assurance

Gary Mead meets Allied Dunbar's chief executive

There are perhaps only three informally acknowledged international "universities" of marketing, where it forms the very marrow of corporate philosophy; Procter & Gamble, Unilever and Mars. And perhaps the greatest – certainly the most private – is Mars.

Senior Mars people do not normally up sticks and move on, but last year one of their top executives did just that. George Greener left in 1991 after 20 years with Mars to become chief executive of Allied Dunbar, itself known for placing considerable emphasis on marketing.

George Greener: new strategy

Headhunted by BAT Industries, which owns Allied Dunbar, Greener was head of Mars confectionery in the UK since 1986. At first glance it looks an odd move – exchanging a life in chocolate bars for one in life assurance.

But only at first glance. What Greener feels himself to be now engaged upon is almost precisely the same task he had at Mars – building and defending brand reputation which, in Allied Dunbar's case, has not been all that it might have been in recent years.

The company has acquired a reputation for aggressive marketing of its policies and while Greener is equally intent on growth as his predecessors, his Mars schooling means achieving that by finding out what the consumer wants and giving the best deal possible.

As a former Mars man, Greener gives priority to consumer demand. He says the future brand definition of Allied Dunbar products will require persuading the consumer that they offer a "rewarding partnership".

Greener says: "Treating people fairly, meeting claims even when we are not obliged to do so – these are the sort of things that are really important, where we want to earn our reputation. If we tell people the truth we will sell more, not less."

Greener has a deep-structured view of the marketing process which "is not just image. It has to be underpinned with the product. Our marketing strategy is our business strategy and I'm the chief marketing officer. The market-led approach here, which is new, shapes the whole business. Consumers are going to become the dominant factor in this marketplace."

Moreover Greener relishes the challenge he faces in reversing the relatively poor image the life assurance industry currently has.

"The industry has a very bad name. That was an attraction to me because our business is necessary; what we do most of the time is essential, in a way that lots of consumer products are not."

The difficulty will be in measuring consumer response to the Greener approach in life assurance. But measurement, Greener believes, is only of limited value, a precursor to making managerial decisions.

"Mars, almost beyond anybody else, tried to measure everything possible, everything in sight. We charged the advertising agencies with producing results in accord with the quality parameter on the model that they had agreed they were going to accept as being right," he said.

"But having measured everything in sight, there was still no way of actually relating any of the figures to the performance of any individual brand. The best you could do was to get a view of the effectiveness of the total budget.

"If you are going to advertise you have to be very clear about what it is you want to communicate. Allied Dunbar in its early days of TV advertising tried to get across certain basic messages. What I would prefer to do, is to get to the point where we are communicating, in a relatively simple way, something about our essence which really fits what we do out there."

TECHNOLOGY

Haig Simonian on Italian ceramics tougher than stone

Bake me a tile as hard as you can

For decades, researchers have struggled to create materials, such as synthetic diamonds or man-made rubber, which are better than their natural equivalents.

In ceramics, the process is still relatively young. And while sophisticated compounds have been developed to replace metals in some high-temperature uses, it is only recently that the natural-versus-synthetic debate has reached mass-market goods such as ceramic tiles.

By applying increasingly sophisticated materials analysis and automated production techniques, manufacturers can now make heavy-duty tiles more durable and resistant than stone. So confident are some companies about their new products, which are non-absorbent, resistant to chemicals and as attractive to the eye as natural stone, that they guarantee them for up to a century.

Most of the technological innovations have taken place in Italy, the home of world tile production. In spite of growing competition from lower cost countries such as Spain, Turkey and Brazil, Italian companies still account for 28 per cent of world output.

Most are concentrated in the ugly industrial town of Sassuolo near Modena in Emilia Romagna, a central Italian region. Although local archaeologists have found traces of tile-making dating back to Roman times in the region, the real surge came in the 1960s as natural gas discoveries in the nearby Po basin provided the plentiful energy to accompany the already rich local deposits of clay.

Sassuolo today is an environmentalists' nightmare. Its streets heave with lorries heading for export markets such as Germany and Austria, while other trucks bring in clays not found locally. The region's 200 ceramics companies account for well over half the membership of Italy's ceramics industry federation.

> Modern tiles offer new levels of strength and durability which have led to guarantees of up to 100 years

Like other single-industry centres, Sassuolo contains both makers of the final product and the specialist machinery needed to manufacture it. The area abounds with family firms making everything from tile conveyor belts to high-temperature ovens working at up to 1,200°C.

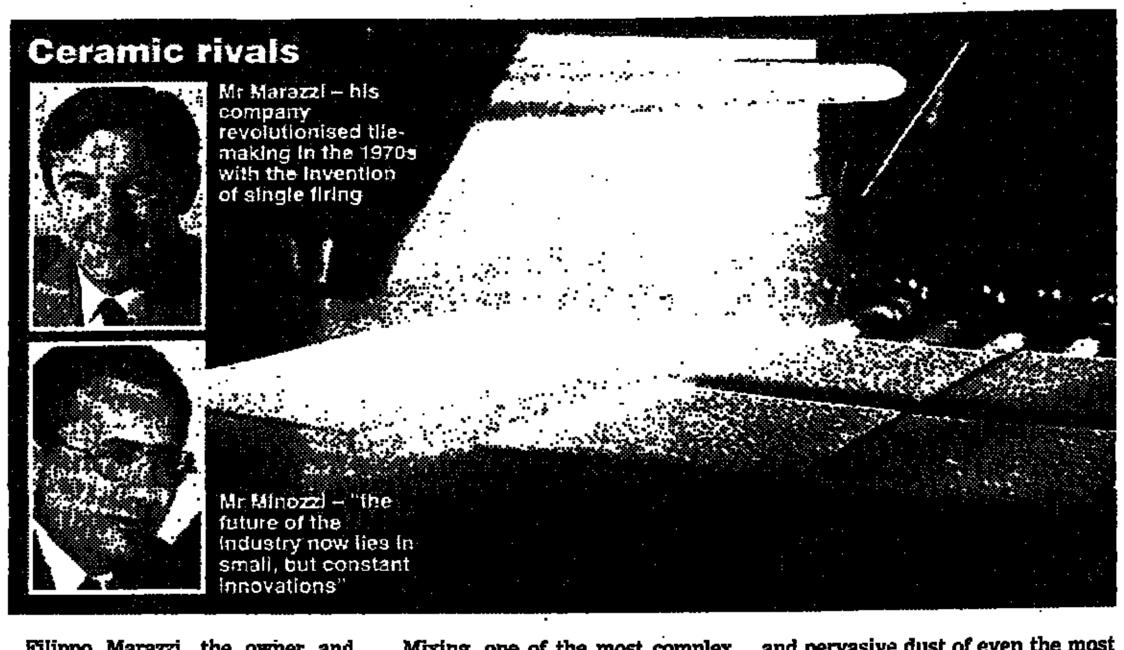
Most ceramics and machinery makers are still small and family-owned with an average workforce of less than 100. However, a crisis in the ceramics industry in the early 1980s led to a shake-out, which some think may be repeated now. Only six companies have sales over L100bn (£46m), while the two biggest, Iris and Marazzi, account for 20 per cent of national production.

The development of bigger, tougher tiles capable of withstanding the daily pounding of railway platforms or shopping centre floors has involved occasional technological leaps, combined with frequent, less dramatic, innovations, says Romano Minozzi, the chairman and founder of Iris.

He does not foresee anything to match the invention of single firing, pioneered in 1974 by his arch-rival Marazzi. By eliminating one of the two firing processes needed to make tiles, the discovery speeded up production times and saved immense amounts of energy. Single firing now accounts for around 65 per cent of glazed tiles produced globally.

Mr Minozzi thinks the industry's future now lies in smaller, but constant, innovations, notably to improve the consistency of the raw materials and to refine production processes which are already almost entirely automated.

Today's tilemakers, as the inheritors of an artistic tradition, are proud that no two tiles are ever quite the same. However, the introduction of increasingly sophisticated process technology has already allowed them unprecedented control over processes such as the mixing of raw materials, glazing and firing, which have traditionally been the most vulnerable to random factors. The result has been to create tiles that offer unprecedented consistency in their composition, and hence new levels of strength and durability.



Filippo Marazzi, the owner and chairman of Marazzi, is slightly sceptical of the 100-year guarantees offered by his rival. "How many customers will be around to make a complaint?" asks one company official. However, even his group now guarantees its new Enduro range for 30 years of heavy-duty use. Such longevity was inconceivable only a few years ago.

Iris's single-firing plant in Sassuolo, the biggest and one of the most modern in Italy, illustrates how computers have vastly improved materials handling and automated production in what was until relatively recently a handicrafts industry.

The process starts with detailed chemical analysis of each new shipment of clay, quartz, feldspars and other raw materials which form the base substance for ceramic tiles. "Only by increasingly sophisticated controls can manufacturers be sure of reaching the required quality standards for the new long-life products," says Giuseppe Marasti, Iris's head of external relations.

Mixing, one of the most complex processes, takes place in huge 25-metre long rotating drums, like giant inverted tumble driers. Only by precision mixing, followed by computer-controlled humidification and drying procedures, can the clay-silicon compounds be turned into the atomized powder which is the basis for the individual "biscuits" from which tiles are made.

Computers stretch as far as the kiln. It is there that the key process of vitrification takes place, whereby the various particles comprising the tile are fused into a single structure of immense strength and resistance.

Microprocessor-linked sensors track temperatures throughout the kilns, making sure the heat is exactly right at each stage of the firing process. Recently, Marazzi has taken matters one stage further, with a patented new procedure for spraying the biscuits with a fine silicon powder which, when heated, produces a glass-like crystalline surface impervious to attack.

Technology has not yet managed to eliminate the deafening noise and pervasive dust of even the most modern tile factory. However, the extent to which tile-making has become a capital-intensive industry is evident at the Iris works, where advances in automation mean that far fewer employees are exposed to such conditions than in the past.

"The human element is largely limited to quality control," explains Mr Marasti. The Sassuolo plant, capable of producing 14m sq metres of tiles a year – equivalent to over 3 per cent of Italy's total production – works on a three-shift system round the clock with a workforce of just 300.

For manufacturers, further advances in technology promise to push tiles to new limits of durability and strength, and help relatively high-cost producers such as the Italians to meet the mounting challenge from lower-cost rivals.

For consumers such as architects and builders, looking for the floor and wall-coverings of the future, the choice between "artificial" tiles and "natural" stone will be harder than ever.

Italy faces growing deficit in R&D

ITALIAN industry, in need of innovations to help it survive in competitive markets, is slipping behind in the technology race.

As the country struggles to sort out its public finances, austerity measures are likely to further weaken the commitment of both government and industry to research and development.

Italy has already fallen behind the other Group of Seven industrialised countries in R & D spending. Between 1985 and 1989, it spent only 1.2 per cent of its Gross Domestic Product on R & D, compared with 2.8 per cent in Germany, 2.3 per cent in France and the UK, and 2.9 per cent in the US and Japan.

Italy's dependence on imports of technology is also much higher and its share of new patents is far smaller than that of other industrialised countries.

In 1990, Italy accounted for 4 per cent of patents issued by the European Patent Office, compared with 9.4 per cent for France, 5.7 per cent for the UK, 20.5 per cent for Germany, 23.4 per cent for the US, and 25.1 per cent for Japan.

Italy has its largest technological deficits with the main industrialised nations and the gaps are widest in the most advanced areas.

It tends to have a positive balance with less developed countries. But in sectors where Italy has traditionally been strong, especially textiles, leather goods and furniture, there are signs that Italian companies are being undercut from the Far East and eastern Europe.

Italy's apparent technological laziness stems partly from a growing tendency by companies to acquire producers of the goods they want or to buy the technology from abroad rather than invest in R & D. This is in sharp contrast to the entrepreneurial spirit of the 1960s and 1970s.

Also to blame is the lack of a coherent national industrial policy, as well as the habit of some big companies of asking for state handouts when they hit problems.

But there are some areas where Italy is showing its innovative spirit – electronics, advanced transport systems and precision instruments. Aerospace accounted for 12 per cent of total R & D spending by private companies in 1988 against 9 per cent in 1981. Spending on precision instruments and machine tools and on electricals and electronics also rose.

Several state ministries have funds for R & D. The ministry of scientific research aims to use its funds – amounting to L250bn (£114.7m) last year – on research programmes that will strengthen the position of Italian companies in export markets or enable them to catch up in high-tech areas.

However, the ministry allocates most of its funds to larger companies which hinders the innovative potential of the country's smaller, more flexible, groups.

The ministry is encouraging more private investment in its research programmes and is increasingly linking its own financing to results, in an attempt to lessen the dependence of big companies on state funding.

Antonia Sharpe

The fax about saving money

Spending your way out of recession could be as strong a piece of advice for companies as for governments.

Meredith Fischer, vice president of marketing at Pitney Bowes' facsimile division, has done some calculations to prove – not surprisingly, some might say – that buying or renting a new fax machine could save you money.

Nevertheless, for the large corporate fax user many of the calculations make surprising reading. The problem for many corporations, says Meredith, is that "the costs of fax machines are well hidden".

In a survey for Pitney Bowes by Gallup, which questioned large corporate users in the US, Canada and the UK, 65 per cent of UK respondents said they did not know how much it cost to send a fax.

Savings can be made in sending faxes: the newer the machine, the faster the transmission and the lower the phone bill. Even more can be saved at the receiving end.

Because ordinary paper is less expensive than thermal paper, plain paper fax machines reduce running costs. Perhaps more surprising is that because thermal fax paper is so unpopular half the incoming messages are photocopied, according to Gallup. Taking secretarial costs and paper into account, Fischer reckons that it costs 60p to copy each document. With an average 60 faxed messages received on every corporate fax machine every day in the UK, costs soon mount.

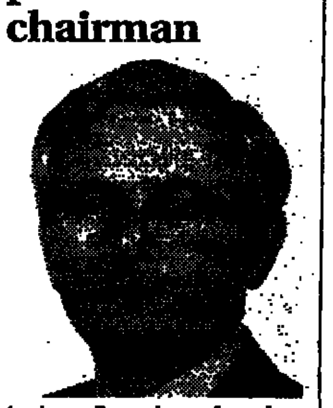
All in all, Meredith reckons that buying the latest fax machine could cut the fax bill by £3,000 a year – for every machine. But savings do not end there. Companies could save more if they used all the functions on the machine, such as delayed transmission, where messages are stored and sent after office hours when tariffs are lower.

Companies with data lines between offices – particularly transatlantic data lines – could also save money by sending their inter-office fax messages on those lines. According to Meredith, as many as 90 per cent of all faxed messages from large corporations are sent within the company.

Della Bradshaw

PEOPLE

Amber Day picks new chairman



Amber Day has found a chairman to succeed the controversial Philip Green, who resigned in September – after a deluge of adverse press coverage – when the discount retailing group reported a sharp slump in profits.

He is Stacey Ellis (above) who, until recently, was director of planning and development for Inchcape, the blue-chip business services group which in the past year has substantially changed its senior management.

Ellis, 52, was a senior figure in the former regime at Inchcape under Sir George Turnbull, who was forced by ill-health to step down at the end of last year as chairman and chief executive. Charles Mackay took over as chief executive at Inchcape, which has since appointed Sir David Plastow as chairman.

Amber Day says it is now seeking to appoint as soon as possible two non-executives and a chief executive, a role which Green shared. In the meantime, David Thompson, finance director, will continue to act as temporary chief executive.

Ellis has bought 500,000 Amber Day shares, which yesterday gained 4p to 34p. The group's shares collapsed from a peak of 129p last year after a series of bear raids and newspaper stories about Green's business associates and commercial deals.

According to Thompson, Ellis's appointment would enable the group to concentrate on developing the business.

Ellis, for his part, says he is impressed both by the prospects for the group's Glasgow-based 'What Everyone Wants' chain, and the commitment and enthusiasm of the Amber Day team.

Long sports Ladbroke colours in US

Ladbroke, Britain's biggest retail betting business, has reshuffled the top management of its fledgling US betting operation and replaced a Briton with an American. John Long has taken over from David Goodwill as president of Ladbroke Racing Corporation based in Michigan.

Goodwill, who had been president of GrandMet's Watney North America business, was appointed president and chief operating officer of Ladbroke Racing in 1988. Although Ladbroke Racing now operates in five states, its growth in a potentially vast US market has been slower than expected.

Ladbroke does not disclose the size or profitability of its US betting business. Although it noted in its interim report that its US operations had produced "satisfactory results", its Minneapolis race track, in particular, has been adversely affected by new casinos opened on nearby Indian reservations under the provisions of the Federal Indian Gaming Regulatory Act.

To earn decent profits on the low margin US pari-mutuel system of betting requires high turnover. However, to help it obtain off-track betting licences, Ladbroke has had to invest in race tracks and as the Minneapolis venture has shown, this can present problems when local laws are changed.

By contrast with its involvement in US race tracks, Ladbroke's investment in five off-track tele-betting theatres – complete with restaurants and bars – in Pennsylvania appears to have been more successful and it is from this side of the business that John Long has been recruited.

■ **Nicholas Gray** has been named finance director of ALLIANCE RESOURCES, the oil and gas company which was put into receivership by unquoted Manx Petroleum in October. Alliance is chaired by Manx's managing director, John O'Brien, who was briefly unseated as chairman following a surprise boardroom coup. He was reinstated in November.

■ **Martin Saunderson** has been appointed finance director and company secretary of THE HOPKINSONS GROUP. Alan Thompson has resigned and leaves the company.

■ **John Bridgeman**, md of British Alcan Enterprises, has moved to Montreal as director of planning of ALCAN ALUMINIUM.

■ **Rod Alexander**, director of purchasing and supply at the POST OFFICE, is promoted to md of Subscription Services.

■ **Andrew Huntley** is the new chairman of the UK partnership of RICHARD ELLIS. Robin Broadhurst has been elected chairman of JONES LANG WOOTTON INTERNATIONAL.

■ **Liam O'Mahony**, md of CRH Group companies in Republic of Ireland and the UK, has been appointed an executive director of the group.

■ **Alex Williamson**, md of Quilty, CUPID's nursery care division, has joined the main board.

■ **Jim Gray** has been promoted to head the CO-OPERATIVE RETAIL SERVICES food division.

■ **Rod Alexander**, director of purchasing and supply, has been appointed md of Subscription Services Ltd, a subsidiary of the POST OFFICE, on the retirement of Brian Sproat.

■ **Simon Tebbett**, formerly a consultant with Price Waterhouse, has been appointed customer service director at THAMES WATER.

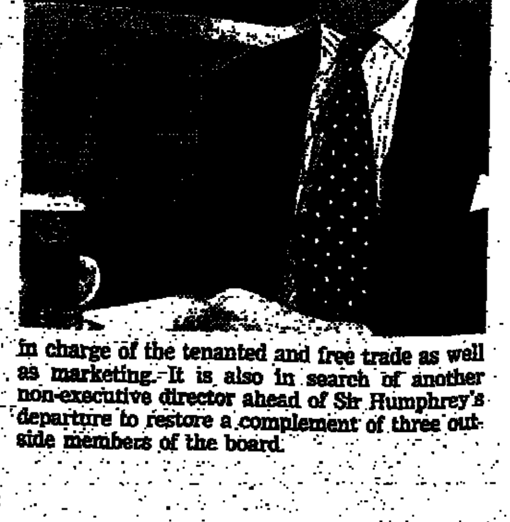
Clutterbuck comes to the head

Sir Humphrey Prideaux is stepping down from Morland, the Thames Valley brewer which successfully fought off a hostile bid from Greene King over the summer, after the agm at the end of January. His retirement, at the age of 77 after 12 years on the board and nine as non-executive chairman, means that Jasper Clutterbuck, deputy chairman and chief executive, steps up to become executive chairman.

Mindful of the Cadbury report's recommendations, Morland says it will be installing Michael Watts, previously trade and property director, in the new position of managing director, taking over the day-to-day operational responsibilities and leaving Clutterbuck, 57, time to concentrate on strategy and external relations.

At the same time, Martin Mays-Smith, previously head of banking at Kleinwort Benson and a non-executive director of Morland since 1989, is made deputy chairman, effectively the most senior of the non-executives and chairman of the audit and remuneration committees.

Clutterbuck (right) was not prepared to comment on the reasons for the company not appointing another non-executive chairman and leaving him in the position of chief executive.



Meanwhile, reflecting recent growth in Morland's business in the tenanted trade, the brewer is now looking for someone to fill the newly created position of commercial director, in charge of the tenanted and free trade as well as marketing. It is also in search of another non-executive director ahead of Sir Humphrey's departure to restore a complement of three outside members of the board.

LEGAL NOTICES

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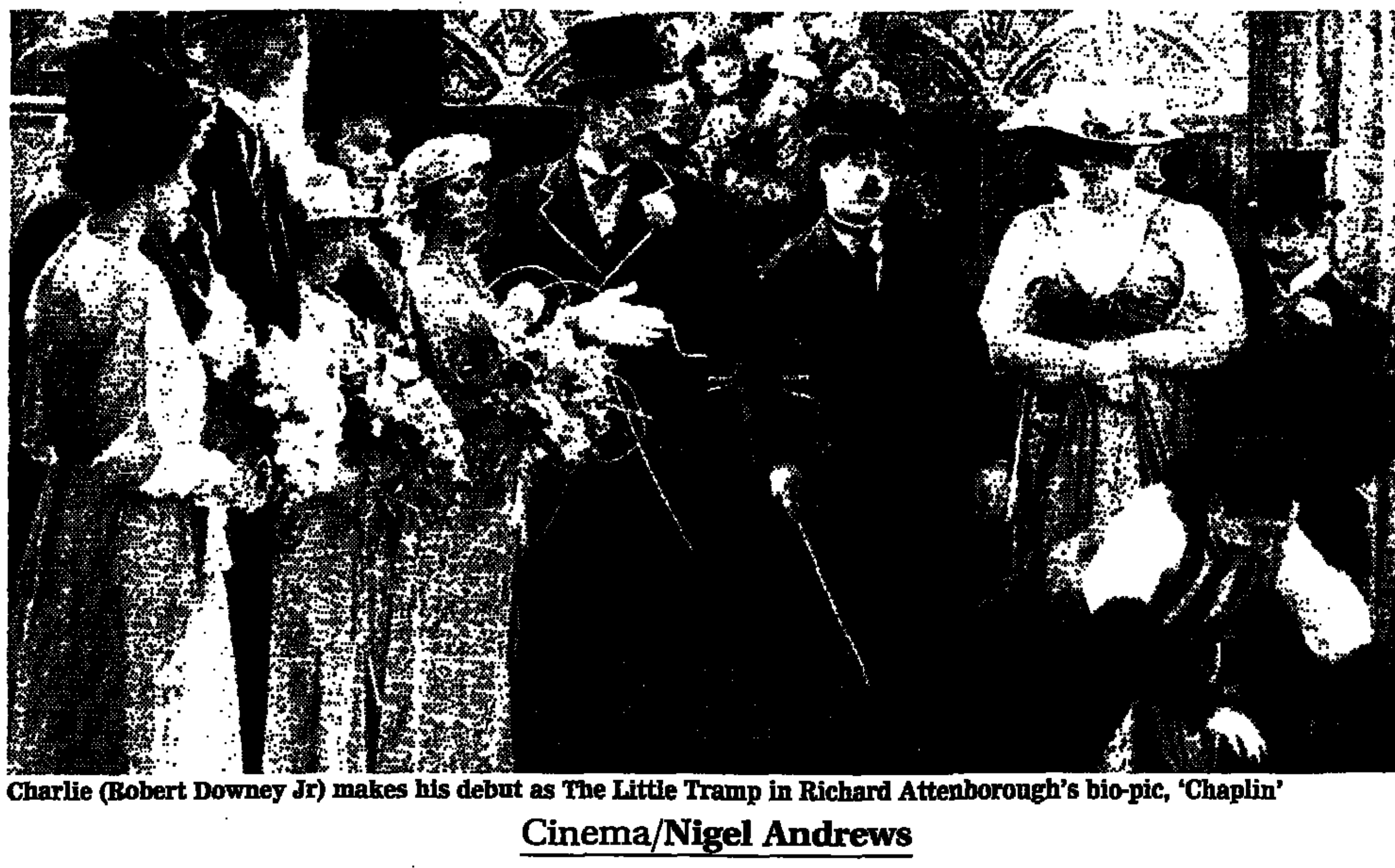
As part of its relocation of the assets and liabilities of the above companies to Bahraini subsidiaries of the National Bank of Bahrain B.S.C. the above English registered companies are being wound up voluntarily. Under the relocation scheme unitholders in the above companies now hold units in the Bahraini subsidiary companies and the following notice is therefore addressed to creditors of the above companies. No other company in the National Bank of Bahrain Group of Companies is affected

Notice is hereby given that the creditors of the above named companies are required on or before 18 January 1993, to send their names and addresses, and the particulars of their debts or claims, and the names and addresses of their solicitors or legal representatives, to A Wilkinson and M Hyde of Clifford Chance 200 Aldersgate Street, London EC1A 4JJ, England, the Liquidators of the above companies

If so required by notice in writing from the Liquidators, such creditors, either personally or by their solicitors or legal representatives shall attend at such time or place as shall be specified in the Liquidator's notice to prove their debts and claims and in default thereof they will be excluded from the benefit of any distributions made before such debts are proved.

All creditors of the above companies will be or have been paid

A. Wilkinson/M. Hyde
Liquidators



Charlie (Robert Downey Jr) makes his debut as The Little Tramp in Richard Attenborough's bio-pic, 'Chaplin'

Cinema/Nigel Andrews

You gotta have a hero you can like

Charlie C and Malcolm X. Only through the world-shrinking, history-scrambling quirks of movie production could the two have ever come together.

Films about real people are called "bio-pics": partly, one suspects, because they are grown with the fertiliser of artistic presumption. Take a famous fellow – Chaplin, Emile Zola, Napoleon, Gandhi, Malcolm X – and water him with a few drops of liquid feed compounded from (equal parts) wild surmise, canonisation and a democratising Everymanness.

Then watch your hero grow from someone real, measurable and idiomatic into someone bland and generic enough to command a two or three-hour movie. Sir Richard Attenborough's *Chaplin* is all about a handsome chap with curly hair and quirky accent (it starts Elephant and Castle cockney, it ends Belgravia posh) who floated through Hollywood between 1914 and 1952. Much of the time this chap appears bewildered: partly because his life has been scripted by four different people – Bryan Forbes, William Boyd, William Goldman and (uncredited) Tom Stoppard – and partly because he is impersonated by a fifth, Robert Downey Jr, who is brilliant when allowed to clown, comatose when not.

Yet *Chaplin*, for all its faults, is a gust of pleasure compared with *Malcolm X*. This, coming to British screens shortly, was witnessed by me a week ago in Los Angeles. In the bio-pic cosmos Spike Lee's film is Yang to Attenborough's Yin. Where *Chaplin* is a victim of innocence, stumbling into aesthetic voids in the course of a well-meaning search for the Little Chap's tragicomic essence, Lee's film is a disingenuous bland-out. Hustling its hero through recent political history, it dodges controversial issues like a soldier serpentining between bullets on a battlefield.

In both films the real-life subject is replaced by an expanded glamorisation. But where Attenborough falls hapless victim to the ineluctability of commercial movie tradition – gotta have a hero you can like and understand rather than someone too prickly or protean (like Chaplin himself) – Spike Lee uses that hagiographic trend as a propagandist tool.

In the role of race-war hate prophet Malcolm X he has cast Denzel Washington, black cinema's Mr Nice Guy, best known for sweetening Steven Biko in (Attenborough's) *Cry Freedom*. As a result, there is no sense of the acrid aggressiveness with which the real Malcolm X played to black crowds but which might, of course, have sent white audiences hurtling from the cinema.

Malcolm X the movie, like *Chaplin*, pretends to portray a switchbacking life. The civil rights leader *did* recant his own hate arias in late career, converted to a gentler propagandism shortly before his own assassination. But the conversion is meaningless – or impactless – in a movie where we scarcely sense those hate arias to begin with. Even Malcolm X's notoriously approving response to Kennedy's killing – "The chickens have come home to roost" – is camouflaged in a montage sequence where sounds and images are pixillated to distract us from their content.

Chaplin owes its switchbacking structure to a different conversion: the hero's change from silent-era supercomic to showbiz celebrity mugged by history. This was not just movie history – the dooming effect of the sound era on a performer whose work was grounded in mime – but political history. Chaplin the man fell foul of the postwar American epidemic of anti-Communism and *Chaplin* the movie suggests that even some of his troubles with women – notably a litigious paternity suit – were the dark work of the FBI.

Could be true. But then almost anything in *Chaplin* could be true. Framing the story with Swiss-set scenes of a white-haired Charlie discussing his memoirs with his publisher (Anthony Hopkins), Attenborough and his scribes make the film a giant flashback as if to say to the audience, "Dispute what you like. This is an old man's recall, not holy writ."

Yet having taken this licence, they fail to use it interestingly. Charlie recalls, it seems, only in clichés. His Ma (Geraldine Chaplin) is a draggle-clothed cockney with a Monty Python line in penurious household budgeting ("Sorry, it's only fish-'eads again, me darlins".) The great swashbuckler Doug Fairbanks (Kevin Kline) is introduced – yes – swinging from a chandelier. And silent director Mack Sennett (Dan Aykroyd) is a photo-fit assemblage of bullhorn, barking command and work mottoes designed to tickle modern audiences' hindsight laughter ("I never make more than two pictures a week").

CHAPLIN (12)
Richard Attenborough

MALCOLM X
Spike Lee

THE MUPPET CHRISTMAS CAROL (U)
Brian Henson

MO' MONEY (15)
Peter MacDonald

COOL WORLD (12)
Ralph Bakshi

The cartoonish approach might have earned its passage, if sustained and intensified. But as Chaplin himself ages, so does the film's style. With the comic practitioner pushed aside by the serial husband and suspected commie, all the initially animated Robert Downey can do is to stand centre-screen, arteries stiffening as he is assailed by a sirocco of subplots. Allowing Chaplin to be his own first-person narrator – which may have seemed an inspired idea at first – ends up playing straight into the hands of Bad Bio-pic Practice. The hero freezes into a bland reactive icon, surrounded by a cast of compensatingly exaggerated movers and shakers.

Throughout both *Chaplin* and *Malcolm X* we long for glimpses – and occasionally get them – of the real man behind the movie surrogate. Each time the real comedian or activist crackles forth from some old newsreel, high-diving into a slapstick pond or haranguing from a fiery podium, we suddenly see or hear what we have been missing. Danger. Surprise. Attraction. Revulsion. Hilarity. Outrage. All those uneven, vivid, corrugated emotions that are crushed smooth by the genuflecting gestures of the bio-pic.

★

Meanwhile, Christmas draws on apace. And what more seasonal than *The Muppet Christmas Carol*, directed by Brian Henson, son of the late great Jim? This has Michael Caine's Scrooge adrift in a Victorian London packed with rats, frogs, pigs, bears and creatures beyond description. Most of these animals are gifted with the power of speech: not least the Great Gonzo as one "Charles Dickens."

This is very enjoyable and absurd for about 30 minutes, after which drama and sentiment take over. Jerry Juhl's script becomes too obsequious to the original, leaving the Muppets to mug frantically in the few seconds they get between the Scrooge-and-ghost set pieces. Kermit gulps away prettily as Bob Cratchit. Fozzie Bear shines for a millisecond as factory-owner "Fozziwig." But Miss Piggy, wasted as Emma Cratchit, practises a porcine sneer in preparation for better roles.

Mo' Money is a cops-and-robbers comedy scripted by black star Damon Wayans (*The Last Boy Scout*). Wayans and real-life brother Marlon play two knockabout con persons who, between scams, help the police expose big business corruption. Fearlessly democratic in its offensiveness, the film lampoons lawmakers and lawbreakers alike: not to mention cripples, junkies, mental patients, paranoiacs, parafeminists, whole-earthists, half-earthists and Uncle Tomism and all. It is so ill-behaved it is almost charming. Or am I just suffering from pre-Christmas concussion?

Cool World may have contributed to that state if I am. Imagine a cartoon dimension where migrated humans (Brad Pitt, Gabriel Byrne) turn into painted likenesses of themselves and where painted nymphets long to depart so they can turn into real earthy beauties. One such nymphet departs to become Kim Basinger. But the strain proves too much and she returns to cartoondom. Ralph Bakshi (*Fritz The Cat*, *Lord Of The Rings*) designed and directed this live-action/animation folly, which is every bit as whimsical, circular and one-idea as it sounds.

Theatre

Billy Liar

Keith Waterhouse has achieved the unusual distinction of having a new play running in the West End while one of his early works is being revived as a period-piece at the Royal National Theatre. It is not that Waterhouse has changed much as a playwright: he continues to chronicle the times as he sees them, but in 30 years times have have changed almost beyond recognition.

Our Song, his new play at the Apollo, is about an abortive love affair in the advertising world of the late 1980s. *Billy Liar*, which he wrote along with Willis Hall, is a product of the late 1950s. Lindsay Anderson, the original director, writes in a programme note that *Billy* was a protest play about the class society, and remains so today.

That is not how it looks in Tim Supple's production at the Cottesloe. Protest and anger are notably absent. This *Billy Liar* is a portrait of the emergence of relative affluence and the continuation of deference. No-one seems particularly short of the odd bob or two. Some, like the girl Liz (Sally Rogers) are even fairly flush – ready to buy rail tickets from the north of England to King's Cross on a Saturday night.

No-one is unemployed. When Billy's father threatens to throw him out if he cannot earn his own living, Billy comes back within two hours having found a job as a clerk, which he continues to hold down despite fiddling the petty cash and not turning up on Saturday mornings. If he wanted to, Billy could enter the family business – a removals firm. The family cocktail cabinet, by no means despised by Billy, lights up and plays a tune when opened.

There is one area of contention. Billy has passed his 11 plus and entered a grammar school where he feels out of place. He resents his parents' claim that it is a willing financial sacrifice on their part to pay for the uniform that goes with a grammar school education. This was before the late Anthony Crosland pledged to abolish the whole effing lot of them, because of their disruptive social influence.

Billy withdraws from school prematurely and retreats into fantasies. His parents call them lies, which is literally true, but nostalgic fantasies is the better description. He would like to be a concert-pianist, a script-writer or even prime minister. When his father calls him into line, on the whole he obeys. There is not the slightest sign of a social conscience or serious break with conformity. Besides, he spends most of this time chasing the girls: references to the campaign for nuclear disarmament or South Africa are no more than an afterthought.

There are other dips into the past, like the grandmother who refuses medical treatment because one of the doctors is a woman and the other is black. The grandmother (Elizabeth Bradley) also talks about the trouble caused by the blacks on the buses in Birmingham. It takes an effort of memory to realise that she means Birmingham, Alabama.

Billy is played by Paul Wyett. He looks younger than his predecessors, Albert Finney and Tom Courtenay, but that may be a sign of our growing older. James Grant plays his father whose every third word is "bloody", which once seemed daring but now sounds quaint. June Watson as the mother looks and acts exactly like a lower middle class woman of the time – bearing up with some dignity. As a loving, careful reconstruction of a view of Britain *circa* 1960, it is very well done. It should not be taken for anything more.

Malcolm Rutherford

In repertory at the Cottesloe Theatre (071 928 2252), then touring. Sponsored by BP.

Dylan Thomas: Return Journey

"Years ago, when I was a boy, when there were wolves in Wales and birds like red-flannelled petticoats..." *Dylan Thomas: Return Journey*, a one-man show in which Bob Kingdom impersonates Thomas solely by reciting Thomas's own words, gives pride of place to the best loved facet of Thomas – the lyrical, satiric, comic, tender and elegiac prose poet of the bygone Wales of his youth. Thomas can be as funnily picturesque on Wales as Dickens on England and as acute and ironic as Joyce on Ireland. The show refers only to Thomas's own self-destructive adulthood obliquely.

But Thomas was less interested in Wales, or in memory, than in words. Listening to this show, you can tell why Edith Sitwell once wrote him a fan-letter; and Gerald Manley Hopkins is another poet whose work comes to mind. Thomas gets a high from sound itself, though in the long run his over-indulgence serves to diminish him. *Return Journey* confirms my suspicion that Thomas is a poet best enjoyed in adolescence (lines like "his sulking skulking cold black soul," "the old ramrod dying of downfall," "black business bowlers bobbed before..."). Few of us, however, are so entirely adult as to be proof against his lyric charm.

Bob Kingdom moves little, and his face moves less. You never quite get past the fascination of just looking at him – is his head too large for his body? or is his forehead too big for the rest of his face? or both? and is that permanent expression of his a melancholy frown? – but mainly you hang on the voice. It is, as he produces it here, an entirely Welsh voice, preacherly, singerly, fruity and deadpan in its solemnity, as oddly cultivated in its bygone accent as the BBC voices of the postwar years were in theirs.

No doubt but that in most respects Kingdom does Thomas to a T. This show – directed by Anthony Hopkins, no less – is excellent, and most recommended to all those who want to intoxicate themselves on words – words and fun. Who could not love Thomas's descriptions of the useful and useless books of boyhood? ("Books that told me everything about the wasp except why"?) He adores making crazy lists: "balletomanes, Max Factored actors, bigwigs and humbugs ... and men from the BBC who sound as if they had the Elgin marbles in their mouths."

It is eventually Thomas's over-use of devices as lists, alliterations and half-rhymes that make him seem a minor artist. He is, nonetheless, absorbing company. *Return Journey*'s only fault is that it moves with an over-smooth gear change into the more vehement poetry ("Do not go gentle"), which therefore does not make its full effect.

The show's most interesting achievement is the way it shows Thomas's detached presentation of himself. He sounds as lonely as one of Dickens's heroes, and he uses the first person singular in an ironic post-Romantic tone that often evokes Eliot. Making his way back to his Welsh boyhood, in fact, he often sounds much like Peer Gynt.

■ In my review of *Grace* last Friday I mistakenly called Kristin Marks Kristin Thomas. My apologies.

Alastair Macaulay

At the Lyric Studio, Hammersmith, until January 2

Song recitals/**Max Loppert**

Bär, Von Otter and Nathan

Since the re-opening last month of the Wigmore Hall, London music has taken on the aspect of a semi-perpetual song-festival. The parade of fine song-recitalists (Price, Bonney, Hagegard, Mattila, Bartoli, Janowitz and so on) anxious to re-kindle their relationship with the "teure Halle", alongside those youngsters fortunate enough to make their first appearance there, continues. May it never cease!

A certain sentimental pleasure attaches to every concert here of Olaf Bär. A 1983 Wigmore debutant, youthful and unknown, he leapt directly thence to world fame. Unfortunately, the Bär story seems to have reached something of a dramatic crisis. Singing Mahler song-cycles at the Barbican recently, he disclosed a voice so alarmingly straitened in terms of tonal resource that one left the hall in a state of deepest anxiety and gloom.

On Tuesday he gave his now-celebrated account of *Die Winterreise* with Geoffrey Parsons as piano partner. It did not provoke feelings of Barbican order: the smaller hall is, after all, uniquely encouraging and accommodating to the voice, and in place of a surging Mahlerian orchestra there was the Parsons piano support at its most acutely sympathetic, never egregiously assertive yet always aptly prominent in the narrative pattern. Bär's beautifully clear and poetic diction in his native language, his determination always to balance the various narrative, pictorial and emotional demands of the great cyclic unfolding, are qualities undimmed: his truthfulness as an artist still shines through.

But as evidenced in this *Winterreise*, the state of the voice still raised a worrying number of questions. This is, after all, a man just short of his 35th birthday; the greyish, unresonant tone in soft mid-range phrases, stringy over-forcefulness of the loud and high, and regular slippings below pitch are simply not those of a young baritone coming into his prime. Neither are the stratagems to which he regularly resorted to cope with tricky phrase-shapes and intervals.

One agonises over Bär not for Beckmesser-ish or canary-fancying reasons, indeed, but because his peculiarly precious artistry in Lieder is continually being let down by current vocal technique. A period of withdrawal for serious self-examination and vocal overhaul is urgently required, while there is still time for it to do good.

On Saturday in the Wigmore, there was another house favourite, Anne Sofie von Otter, and another outing of the "House Full" sign. This was the final song-recital in the "Tender is the North" series, and the first half – two songs each of six minor Swedish composers – was a duty smoothly if not very grippingly accomplished. The Von Otter mezzo, that even, lustrous instrument, was covered by small patches of cloud (the top sounded tight and chancy); in Wolf she found her best simple, heartfelt form, but then did Britten's four Cabaret Songs as a comic turn, changing hats for each one.

This singer's sheer efficiency is never less than astonishing, her linguistic expertise and ease in adapting to a wide range of musical styles always admirably thorough-going. On this occasion, however, the sense of personality responsively shaping words and music proved oddly fugitive.

It made for strong, interesting contrast to attend, between these two international-class recitals, Monday's Purcell Room concert (promoted by the the Kirckman Society) by the young Irish soprano Regina Nathan. She had a big success as Susanna in the recent Glyndebourne Touring *Figaro*. In recital, even in a hall which lent her bright top notes an unkind edge, the grace, fullness and warmth, steady beauty of her singing gave unfailing delight. She seems not fully awakened to the distinct, different demands of Schubert, Brahms and Wolf; consonants are sometimes softened into mush. But of her shining, elating promise there can be no doubt.

INTERNATIONAL ARTS GUIDE

■ ANTWERP

A new production of Elektra opens at **De Vlaamse Opera** on Tues, with six further performances till Jan 9. Stefan Soltesz conducts a staging by Nuria Espert, with Gabriele Schnaut in the title role (233 6685)

■ ATHENS

Christa Ludwig, accompanied by Charles Spencer, gives a song recital tomorrow evening in the **Concert Hall**. Sun and Tues: La Camerata plays Saint-Saens' Carnaval des Animeaux and Prokofiev's Peter and the Wolf. Dec 26, 27: Czech Radio Symphony Orchestra (722 5511)

■ BOLOGNA

Tomorrow's performance of Gotterdammerung at **Teatro Communale** is the last in the current run, conducted by Riccardo Chailly and staged by Pier'Alli. Sat and Sun: Chailly conducts orchestral works by Stravinsky and Debussy. Sat in Palazzo dei Congressi: Carla Fracci ballet gala. Mon: Uto Ughi violin recital. Dec 29, 30: Gary Bertini conducts Mahler's Second Symphony (529999).

■ DRESDEN

Semperoper 19.00 Ballet triple bill including Henze's Tristan choreographed by John Neumeier (also Sun evening). Tomorrow: Die Zauberflöte. Sat: Ariadne auf Naxos. Sun morning, Mon and Tues evenings: Giuseppe Sinopoli conducts Dresden Staatskapelle and Chorus in Haydn's The Creation.Next Wed: Hansel and Gretel (484 2731)

■ FLORENCE

Teatro Communale 21.00 Zubin Mehta conducts Orchestra and Chorus of Teatro Communale in Handel's Messiah.Repeated tomorrow, Sat and Sun (277 9236)

■ GENOA

Tomorrow's performance at **Teatro Carlo Felice** is Yuri Grigorovich's Bolshoy Ballet production of Giselle, repeated next Tues, Thurs and Sat. Bolshoy Opera's production of Prince Igor can be seen on Sat, Sun, next Wed and Sun (589329)

■ LONDON

THEATRE

● Hamlet: Kenneth Branagh stars in Adrian Noble's new RSC production (tonight, tomorrow and Sat). Ian Judge's award-winning production of The Comedy of Errors returns next Wed till Jan 30, no performances Dec 24, 25, 27, Jan 2, 3 (Barbican 071-638 8891)

● Richard III: Northern Broadsides production starring Barrie Rutter. Till Jan 9 (Riverside Studios 081-748 3354)

● Carousel: Nicholas Hytner's new production of the Rodgers and Hammerstein musical. Daily except Dec 24, 25 (National Theatre 071-928 2252)

● Cyrano de Bergerac: Robert Lindsay stars in John Wells' stage adaptation, directed by Elijah Moshinsky (Haymarket 071-930 8800)

● Trelawny of the Wells: Helen Bonham-Carter and Sarah Brightman in Arthur Wing Pinero's play about backstage romance in late Victorian London (Comedy 071-867 1045)

● Lost in Yonkers: Maureen Lipman in Neil Simon's Broadway hit (Strand 071-930 8800)

OPERA/DANCE

Covent Garden A new Royal Opera production of Handel's Alcina, conducted by John Fisher and staged by Stephen Wadsworth, opens tomorrow with a cast including Yvonne Kenny, Ann Murray, Kathleen Kuhlmann and Anthony Rolfe Johnson (next performances Dec 21 and 29). Tonight: Madame Butterfly. Sat: Royal Ballet production of Swan Lake.

Tues: Ashton's The Dream and Tales of Beatrix Potter. No performances on Dec 24, 25 (071-240 1066)

Coliseum ENO's repertory consists of the Pountney production of Hansel and Gretel, Gilbert and Sullivan's Princess Ida staged by Ken Russell and conducted by Jane Glover, and a new Pountney production of The Adventures of Mr Broucek starring Graham Clark. No performances Dec 24-29 (071-836 3161)

Sadler's Wells London City Ballet season runs till Jan 2 with repertory consisting of Romeo and Juliet and two triple bills. No performances Dec 24-27 (071-278 8916)

Royal Festival Hall A four-week season of Ben Stevenson's English National Ballet production of Nutcracker opens on Mon (071-928 8800)

CONCERTS

South Bank Centre Tonight's concert in the **Royal Festival Hall** is devoted to Christmas music and carols for choir and audience, while in the **Queen Elizabeth Hall** Charles Hazlewood conducts the EOS orchestra in works by Corelli, Tippett and Mozart.

Sat in Purcell Room: Dave Shepherd Sextet plays Benny Goodman (071-928 8800)

Barbican James Galway is soloist in tonight's LSO concert of popular orchestral favourites. Tomorrow: Georg Solti conducts LSO in Bruckner's Eighth Symphony.

Sat and Sun: King's Singers Christmas concert.

Tues: Jeffrey Tate conducts Berlioz's L'Enfance du Christ. Dec 31: Vladimir Ashkenazy conducts the ECYO (071-638 8891)

■ MADRID

Quinteto Rossini gives tonight's concert in **Auditorio Nacional de Musica**. Tomorrow, Sat, Sun: Aldo Ceccato conducts Spanish National Orchestra in works by Beethoven and Schoenberg (337 0100)

■ PRAGUE

OPERA

● A new production of Hansel and Gretel opens tonight at **Prague State Opera** (repeated next Thurs and Sun). Tomorrow: L'Italiana in Algeri. Sat and Tues: Salome. Sun: L'elisir d'amore. Next Fri: La traviata. Next Sat: Les Contes d'Hoffmann. Dec 30, 31: Die Fledermaus (265353).

● Bohumil Gregor conducts **National Theatre's** new production of The Bartered Bride Dec 19, 25, 26, 31 (205364)

CONCERTS

Hugo Wolff conducts Czech Philharmonic Orchestra tonight and tomorrow in **Dvorak Hall** in a programme including Grieg's Piano Concerto (Ivan Moravec) and Rakhmaninov's Symphonic Dances.

Next Tues: Jiri Belohlavek conducts seasonal music by Corelli, Vivaldi, Fibich and Honegger (286 0111).

The programme of the **Smetana Hall** during the next two weeks includes a recital of madrigals on Sat, a Christmas Day concert by Bambini di Praga and even a New Year's Day concert by Prague Symphony Orchestra conducted by Martin Turnovsky (232 2501).

● For pre-booking and information about these and other events, contact city centre ticket agencies (Sluna, Wenceslas Square 28 in the passage, tel 260693, or Bohemia, Na Prikope 16, tel 228738, or Melantrich, Wenceslas Square 38 in the passage, tel 228714) and theatre box offices

■ ROTTERDAM

Bernard Haitink conducts Rotterdam Philharmonic Orchestra at **De Doelen** on Sun afternoon (Stravinsky's Fairy's Kiss and Tchaikovsky's Sixth Symphony) and next Wed and Sun (Mahler's Seventh Symphony). The first programme can be heard in Amsterdam tomorrow, and the second programme next Sat (413 2490)

■ STOCKHOLM

Royal Opera A new production of Cav and Pag, which is staged by Knut Hendriksen and conducted by Jansug Kakhidze, opens tonight (also Dec 19, 26, 29, Jan 1, 4). Tomorrow's performance is the Ashton production of Prokofiev's ballet Cinderella. There are no performances from Sun till next Fri. Shnitke's ballet Peer Gynt, choreographed by John Neumeier, can be seen Dec 31 and Jan 2 (248240)

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN
2000-2030, 2300-2330 World Business Today – a joint FT/CNN production with Grant Perry and Colin Chapman

Super Channel
0700-0710, 1230-1240, 2230-2240 FT Business Daily
0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly – global business report with James Bellini
0710-0730, 1240-1300 (Wed) FT Media Europe
0710-0730, 1240-1300 (Fri) FT Eastern Europe Report
2240-2248 FT Report

Sky News
2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN
0900-0930, 1900-1930 World Business This Week – a joint FT/CNN production

Super Channel
0830-0900 FT Business Weekly

Sky News
1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN
1030-1100, 1800-1830 World Business This Week

Super Channel
1900-1930 FT Business Weekly

Sky News
0130-0200, 0530-0600 FT Media Europe
1330-1400, 2030-2100 FT Business Weekly

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700
Thursday December 17 1992

Beyond the recession

When OECD countries are suffering from slow growth or outright recession, prophets of doom gain an all too attentive audience. It is precisely at times like these, when pessimism is so easy to find, that the more optimistic alternative perspective must be remembered: the recession will end; when at last it does, prospects for sustained economic growth are excellent.

The OECD's latest Economic Outlook argues that there are three primary reasons for the recession and the unexpectedly weak recovery. In the US, Japan, the UK and a number of other countries, the principal problem has been the need to adjust to the rise in private indebtedness of the 1980s. In continental Europe, the difficulty has been high real interest rates, which have been largely the result of German unification; and, finally, job losses have fallen more widely across OECD economies, notably in services, and look likely to be more permanent than in previous recessions.

This understanding has come with hindsight. Of foresight there has been too little. There has, in fact, been a consistent tendency to underestimate the recessionary forces. For this reason the OECD's analysis of the risks must be taken seriously. The greatest danger is that the recessions in Japan and Germany, both still at a relatively early stage, will prove deeper and more prolonged than most forecasters expect.

That is not a comfortable prospect, but also not the end of the world. The recovery underway in the US suggests that there is life after debt, even if – as Mr Alan Greenspan, the chairman of the Federal Reserve argues – past sins may condemn an economy to a long time in purgatory before it gets there.

When recovery arrives, there is also much to suggest reasonably good long-term prospects. OECD inflation is running at only around 3 per cent. Unemployment may still be rising, but at the same time "the gaps between real wages and productivity levels which opened up in the 1970s and were often cited as a leading cause of rising unemployment in Europe, have now largely disappeared". Above all, parts of the developing world are showing self-sustaining economic dynamism.

In 1992, growth in the dynamic east Asian economies – Korea, Taiwan, Hong Kong, Singapore, Thailand and Malaysia – is estimated to have slowed by 1 percentage point. But it was still 6¾ per cent. China's economy is expected to grow by 11 per cent, while growth in Argentina and Chile should exceed 7 per cent.

The World Bank concludes, in its latest World Debt Tables, that "for the commercial banks and some of their middle-income borrowers, the debt crisis that began 10 years ago is largely over". There are, for example, huge flows of portfolio capital to developing countries, the gross amount rising from $7.5bn in 1989 to $27.2bn in 1992 – more than half of it to Latin America and the Caribbean.

A new world is growing up around the OECD countries, one of new opportunities and new challenges. The task for the OECD will be to maintain and, indeed, enhance, global co-operation. As the countries of east Asia, eastern Europe and Latin America advance, they need to be brought into the circle of co-operation and consultation that the OECD itself uniquely provides. The OECD should be defined as the grouping of advanced economies, wherever they are located. Japan's membership has already shown the way. Others must follow.

Kenya's election

KENYA'S first multi-party elections for 26 years are in jeopardy. A manipulated nomination procedure, violence, intimidation and abuse of the machinery of state have seriously compromised the process, as the Commonwealth observer group and other independent monitors have warned this week. Far from marking the start of a new democratic era for Kenya, the December 29 poll could become the catalyst for instability.

A year ago President Daniel arap Moi capitulated to internal and external pressure – notably a freeze on aid flows – and lifted the ban on opposition parties. But hopes have not been sustained. The loose coalition that pressed for multi-party democracy broke into three main parties in which ethnicity predominates.

Most worrying, however, has been the performance of President Moi and the ruling Kanu party. They have exercised autocratic power for so long that the distinction between state and party has been lost. Opposition parties have been prevented from nominating candidates in as many as 45 parliamentary seats. In no less than 17 seats Kanu candidates have been returned unopposed, giving Mr Moi a head start in the contest for 188 seats. The electoral commission has effectively disclaimed its responsibilities, saying that aggrieved candidates must seek redress in the courts.

Meanwhile district commissioners behave like party functionaries rather than civil servants, and harass opposition parties; state radio and television display a pro-government bias; and there are growing suspicions that the Kanu campaign is drawing on state resources. Only last Saturday a parade marking the 29th anniversary of independence was turned by Mr Moi into a Kanu political rally, prompting five western ambassadors to walk out.

Thus even before polling takes place, the credibility of the election process has been undermined. A heavy responsibility now rests with the Commonwealth observers, whose assessment of the conduct of a member state will carry special weight with the international community.

As a first step, the number of observers should be increased. The team cannot prevent election fraud; but 40 people cannot adequately monitor 10,000 polling stations. At the same time, the group should make clear to Mr Moi that abuses of state power must cease if Kenya's elections are to be judged free and fair. Only if they are will aid frozen a year ago resume. A Kanu win under any other circumstances will be a Pyrrhic victory.

Cars and cycles

YESTERDAY'S spate of bad news from Ford, Volkswagen and Peugeot about job cuts and financial losses in Europe will provoke fresh anxiety about the depth of the European recession. But while the recession is real enough, there is more to it than that. The problems of the world motor industry are not confined to Europe. Nor is it clear how far they are caused by recession, as against being uncovered by it.

As it happened, Nissan this week announced plans to increase its UK car output. So did Rover, which is now closely associated with Honda. Yesterday also saw the official opening of Toyota's first European plant in Derbyshire. But while the build-up of Japanese competitive pressure ahead of the single European market is plainly part of the story, the Japanese producers are not enjoying life either. Nissan is in loss worldwide, as are several of its smaller competitors. Toyota, whose profits last year were almost halved, has just made a further cut in its profits estimate for this year.

In the US, while there are glimmers of hope in the market place, most of the producers are in no better shape. General Motors, the biggest car maker of them all, is in worse. Not only is its organisation in turmoil, it has just summarily got rid of its boss.

Around the world, the industry is suffering from twin afflictions. It has high overheads which are not flexible enough to cope with fluctuations in demand. Meanwhile, the competition is hotting up, with global producers expanding into each others' markets faster than the markets themselves can cope with.

These problems are not confined to the motor industry. But in one respect, the travails of the motor industry are particularly instructive. In the past couple of years, there has been much talk of the so-called "lean production" technique employed by Japanese car makers. Supposedly, this offers two particular benefits. Its flexibility allows for frequent variations in model within a relatively small output, and its responsiveness means that the least possible inventory is built up through the supply chain.

In the event, this seems to have had its limits. Japanese car makers, like their counterparts in consumer electronics, have found that extreme proliferation in models was a mere frippery of the late 1980s, designed to tempt the consumer into yet more excessive consumption. The emphasis is now on a smaller range of models, changed less often and lasting longer. And despite the supposedly lower inventories carried by the industry and its reduced working capital, its collective overheads are still too high. There are only two ways to address this problem: either the industry gets even leaner, or some of the weaker fry get out.

Europe isn't working

As the single market approaches, rising unemployment has pushed inflation out of the limelight, writes David Goodhart

In the run-up to next year's single European market, many of the continent's biggest employers are shedding tens of thousands of employees. IBM, British Petroleum and Ford joined the list this week, and the UK government will today unveil figures showing more than 30,000 joined the dole queues in November.

Unemployment in the European Community, consistently higher than elsewhere in the industrial world and rising rapidly again, is rudely elbowing its way back into the limelight.

Between 1985 and 1991 it was tempting to believe that unemployment rates could return to the low single figures of the 1960s as, led by the UK, the EC created 11.4m jobs. That performance was better than the US, Japan and non-EC Europe, but still not good enough to bring EC unemployment rates down to their levels.

One reason is that only a third of the 11.4m jobs went to the registered unemployed, resulting in a disappointingly small fall in the EC's unemployment rate, from 10.9 per cent at the end of 1985 to 8.4 per cent at the end of 1990. About 30 per cent of the new jobs went to part-timers and 70 per cent to women. Many of the women, according to European Commission officials, now form a reserve army of the semi-employed who come on to the jobs market when jobs are plentiful and disappear again when they are scarce.

Thanks to the rising level of female participation in the EC workforce, a static, or slightly falling, EC birth rate will not lead to a shortage of workers or the disappearance of unemployment by the end of the century. Indeed, the Commission expects the labour force to grow 15 per cent, requiring 25m jobs, by 2010, largely because female participation will catch up with the rest of the industrialised world.

But the medium-term prospects are not good. Industrialists point out that, on top of the unemployment arising from slower growth, is the extra loss of jobs that will arise because of the single market. Companies' profit margins in the new competitive environment are coming under pressure so they are cutting overheads in the form of jobs. The combined result is that for the past year unemployment has been rising in almost all countries, with the exception of the Netherlands, and EC-wide unemployment is now edging back up towards 10 per cent – about 16m people.

The UK, where labour-market deregulation has made it easier to hire and fire, is the leader in the loss of jobs just as it was in job creation, and accounted for almost 50 per cent of the increase in EC joblessness in the year to August 1992. The continuing rapid increase in the UK will help to propel the EC-wide unemployment rate to a new peak of more than 11 per cent later in 1993, where the Commission expects it to remain until 1996.

The total should fall after that, but the continuing underlying upward trend, which began with the first oil shock of the early 1970s, will leave joblessness at the end of the 1990s six times higher than it was in the 1960s. The Commission estimates that 10m new jobs will be needed by 2000 merely to cut the unemployment rate to 7 per cent, something the tough economic convergence criteria of the Maastricht treaty will almost certainly rule out.

EC labour markets were not always such international laggards. Indeed it was only in the early 1980s that EC unemployment overtook that of the US, but academics and policymakers seem at a loss to find a convincing explanation for what has gone wrong over the past 20 years.

Mr Charles Bean, of the Centre for Economic Performance at the London School of Economics, concluded a recent survey of European unemployment thus: "The reader may feel that we are not much further on in understanding the causes of high unemployment than 10 years ago. There are plenty of plausible suspects, quite a few smoking guns, but little really definite proof."

The basic pattern of EC unemployment has remained similar for 20 years, although the problem is now spreading beyond the unskilled, the young and the old to affect better-qualified, middle-aged workers. But the current wave differs in one important respect from the early 1980s – there is no surge in youth unemployment, which accounted for 45 per cent of total EC unemployment in the early 1980s and now accounts for less than 30 per cent.

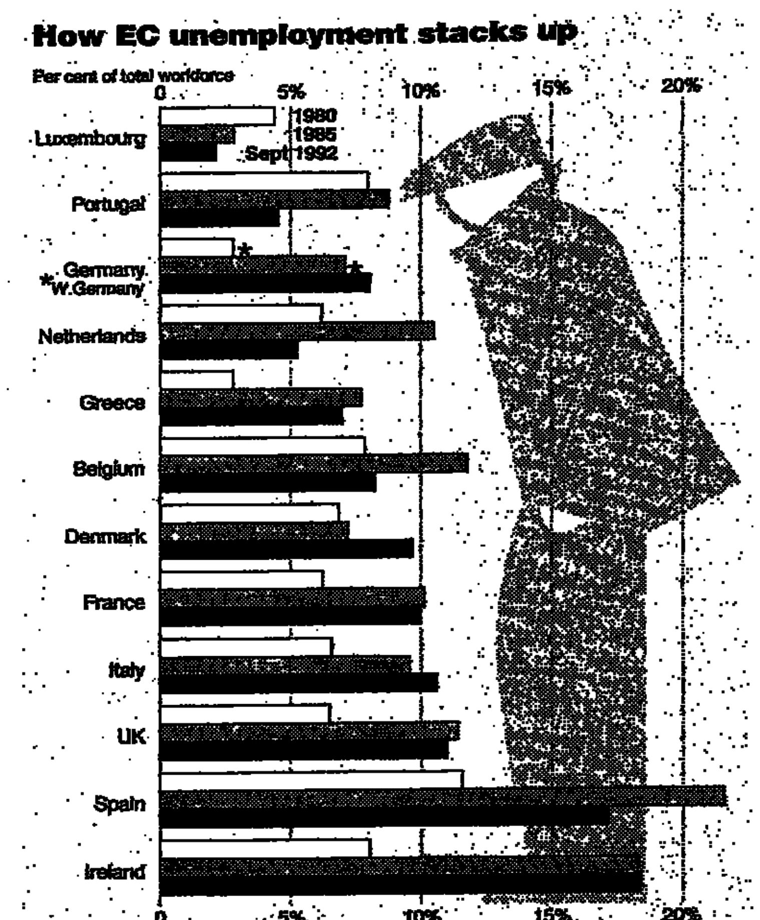
There remain large differences between countries within the EC – particularly between northern and southern member states. As Mr John Morley, head of employment policy at the European Commission, points out: "Unlike the United States we do have some very undeveloped parts of the EC with low participation rates and a large black market."

EC unemployment can be divided into three groups: the high-unemployment countries (Ireland and Spain); the medium-unemployment countries (the UK, Italy, France, Denmark, Belgium and Greece); and the low-unemployment countries (the Netherlands, west Germany, Portugal and Luxembourg).

In some countries, such as France, Italy and Greece, unemployment has remained relatively static for almost a decade; others such as the UK have ridden the roller-coaster up, down and now up again. A virtuous trio of Portugal, the Netherlands and west Germany have seen a consistent downward trend since 1985, although Germany, following reunification, is now starting to shed jobs rapidly.

Southern states such as Spain, Greece and Italy tend to have lower participation rates, higher youth and female unemployment, and higher self-employment rates. But Spain's very high unemployment rate stems from its slow growth between 1975 and 1985; inflexible employment rules for employers plus capital-intensive investment have done little to dent this. Portugal, on the other hand, enjoys low unemployment because it has low productivity.

How EC unemployment stacks up



There are other regional differences, such as high graduate unemployment in Spain and Greece which results from people queueing for the better-paid jobs in the public sector. But there is no single explanation for the EC's poor employment performance which would help policymakers bring the rate down to the low single figures that prevails in Japan, the US and non-EC Europe.

The EC's failures compared with other leading industrial countries (see chart) cannot simply be attributed to slower growth. Though growth has been below Japanese levels since the early 1970s it has been comparable with the US and non-EC Europe.

Neither, as the UK government believes, can the failure be attributed to the over-regulation of EC labour markets. Britain's own *laisser-faire* hire and fire system is hardly a model – with the third-highest unemployment in the EC – while two of the most regulated EC labour markets, the Netherlands and west Germany, have relatively low unemployment. Related arguments about high unionisation or generous benefit systems are disproved by the Nordic countries, which have both, as well as historically low unemployment.

So was labour market deregulation and the reduction in union influence pursued by some EC countries in the 1980s misconceived? Mr Robert Lindley, of the Institute for Employment Research at the University of Warwick, believes that the strategy hit the wrong target. Instead of forcing full-time, well-paid "insiders", from skilled manual workers to the professions, to share out some of their job security and high pay, it has merely made "already weak workers even weaker and divided up the same amount of work into smaller, part-time, parcels". The percentage of French workers in part-time employment has increased by 50 per cent over the past decade and one-fifth of UK employment is now part-time.

The dominance of the insiders also helps explain the failure of EC wage rates to respond first to the external shocks of the 1970s oil price rises and then to the high unemployment of the early 1980s. Japanese workers took a sharp drop in real wages in the 1970s and, at least for the past 10 years, US workers have had static real wages. By contrast the EC, led by Britain and Italy, saw a significant increase in real wages in the 1980s. In Britain, for example, they rose by 39 per cent and in Italy by 31 per cent.

One reason that the insiders have remained so well-placed in the EC is the high incidence of people out of work for more than one year who cease to function as an effective pressure on the employed. The long-term unemployed make up about 50 per cent of the EC unemployed, compared with only 6 per cent in the US and 18 per cent in Japan.

The Commission wants a more "integrated" labour market to accommodate the longer-term unemployed but is unlikely to get it. EC employers are fragmenting the labour market and, where regulations allow, increasing the number of part-time, or temporary, service-sector jobs, which are often insecure and low-paid.

To overcome the mismatch between the skills and aptitudes of the long-term unemployed and the sort of jobs increasingly on offer, the unemployed will have to adapt to the job market. Mr Morley says governments must help them by adjusting their social security and taxation systems to encourage the outsiders back into the labour market, making it easier for people to combine two part-time jobs for example. Governments should also spend less on "passive" benefits – currently more than two-thirds of the 2.25 per cent of EC gross domestic product spent on the unemployed – and more on retraining, counselling and other active labour market measures.

Such reforms could take years to yield benefits. In the meantime it would be unrealistic to expect greater labour mobility in the EC to help reduce strains – only 2m EC citizens currently work permanently in another EC country, fewer than the number 10 years ago.

There are, however, two grounds for optimism about EC unemployment. First, thanks to lower productivity and the growth of labour-intensive services, it now requires EC growth of only about 1.5 per cent to create jobs, compared with 3 to 4 per cent 10 years ago. Second, a growing number of politicians in the EC are starting to focus on high unemployment as a structural, not just a cyclical, problem. As Mr Morley says: "It's not much, but at least it's a start."

BOOK REVIEW

Mystery without thrills

THE MONEY CHANGERS
By Charles Raw
Harvill/HarperCollins £20. 520 pages

The Banco Ambrosiano affair ranks as one of the gravest and most complicated banking scandals since the second world war. Prior to the more recent unravelling of the BCCI and BNL/Iraqgate stories it was also accurate to describe it as one of the biggest.

The outline of this particularly Italian affair is already known to many in the financial community. The late Roberto Calvi, chairman of Banco Ambrosiano, was a Milanese banker with close personal and business ties to both the secretive P2 Masonic lodge and the Vatican bank (Istituto per le Opere di Religione). The corpse of Calvi, who became known as "God's banker", was found in June 1982 hanging beneath Blackfriars Bridge in the City of London as his bank was collapsing under the weight of a massive fraud back in Italy. It has never been clear whether Calvi's death resulted from suicide or murder. It was initially ruled a suicide, but a second inquest resulted in an "open" verdict.

Some $1.3bn of Ambrosiano money was missing at the time of bank's crash, and was later found to have gone to 10 offshore dummy companies controlled by the Vatican. In 1984 the Vatican paid National Westminster Bank, Midland and other creditors of Ambrosiano the sum of $244m "in recognition of moral involvement" in the Ambrosiano fraud.

By the late 1980s Monsignor Paul Marcinkus, the golfing, Chicago-born archbishop who ran the Vatican bank, was indicted in Milan on fraud charges only to have his arrest warrant ruled null and void by Italy's supreme court. Two years after the charges were set aside, he lost his job and subsequently returned to America, denying any guilt and yet regretting: "I will be remembered as the villain in the Calvi affair."

This, in abridged form, is the tale. It has already been articulately summarised in God's Banker, a book written in the early 1980s by Rupert Cornwell. Now, after eight years of investigation as both a journalist and consultant to the Ambrosiano liquidators, Charles Raw has produced a voluminous tome that tackles the story with a wealth of financial detail and hitherto undisclosed documents.

Raw's main revelations concern how Archbishop Marcinkus and his colleagues at the Vatican bank made it possible for $250m of funds to be stolen by members of the P2 lodge. The author states baldly that for a time Pope John Paul II himself "joined in the cover-up" of the Vatican's involvement in the Ambrosiano scandal. He also cites "blatant evidence of a conspiracy" between Archbishop Marcinkus and Calvi to deceive third parties about their joint dealings through the exchange of a series of letters of "patronage" and "indemnity".

There are a few moments of light relief in this dense history, such as the recollection by Calvi's widow of a visit by Archbishop Marcinkus to the Calvi family's rented villa in the Caribbean, with the Vatican banker singing *Arrivederci Roma.*

Raw employs impressive detail to convey the intricacies of the scandal, whether he is givingthe background of the collapse of the Franklin National Bank, controlled by Calvi's associate Michele Sindona, describing Licio Gelli, head of the banned P2 lodge to which Calvi belonged, or telling of behind-the-scenes manoeuvering by Midland, Natwest and other creditor banks to persuade the Vatican to pay compensation. But ironically, the technical minutiae that give the book much of its authority also make it somewhat inaccessible to ordinary readers. Some chapters are opaque, such as one on the role of Rizzoli, the publishing group in which an Ambrosiano subsidiary was an investor. Names, numbers and documents cascade through the book, seemingly there for their own sake, rather than to provide the clarity needed in such a complicated narrative.

The mysterious death of Calvi, however, is one of the few sections of the book that is easily digestible. The latter chapters provide a remarkable reconstruction of the final days of Calvi's life, spent in Austria and a London hide-out. But they do not arrive at any persuasive conclusions about his demise.

Freemasons, archbishops, shadowy bankers, spies and Mafia men... The Calvi affair is one of the great real-life financial and political thrillers of the past decade. So it is all the more disappointing that Raw – undoubtedly one of Britain's most talented investigative journalists and the co-author of Do You Sincerely Want to be Rich?, an excellent book written 20 years ago about funds manager Bernie Cornfeld – has become trapped by too much extremely well-researched, but rather microscopic, material. As a result, he frequently loses sight of the big picture.

In addition, he might be expected to draw some analytical conclusions about the Ambrosiano affair's wider implications for Italian politics and international bank regulation. He does not.

Bankers, accountants, lawyers and followers of things Italian will probably find this book fascinating. But the general reader is in danger of becoming numbed by the endless detail. This is one for the aficionados.

Alan Friedman

ECONOMIC VIEWPOINT

G7 should look to Asia for new year hope

By Samuel Brittan

There is a big advantage in ploughing through a survey of the world's main industrial countries such as the December Economic Outlook of the Paris-based Organisation for Economic Co-operation and Development (OECD).

For any tendency to attribute misfortunes to the peculiar shortcomings of one's own government is quickly remedied when it is seen that very similar misfortunes affect other countries with governments of a very different hue.

Take the boom and bust cycle in the financial markets. It has actually been greater in Japan than in the UK, if equities are taken into account. Commercial property values have indeed fallen more in the UK than elsewhere, but the fall in house prices has been greatest in Scandinavian countries, eg Norway and Finland.

In spite of all this interesting information, it is quite hard work to extract a real theme from the OECD report, which is in some ways a step backwards. For instance, the growth tables in the main text start in 1992 and go on into 1994, thus putting the main emphasis on crystal gazing. One has to extract from the statistical appendix the old standard tables which put the projections in the context of earlier developments; and even they do not go back far enough or indicate trends clearly.

If one looks for oneself, there is no mystery about what has happened. Output in the Group of Seven "summit" countries started to decelerate in the early 1990s, partly as a result of counterinflationary policies and partly as a result of the debt problems of individuals and companies. The end product has been a prolonged growth slowdown which the OECD expects to continue into 1993. The silver lining is that the underlying inflation in G7 countries, which had already been reduced in the 1980s, is now declining further and is expected to fall to 2¼ per cent by 1994, the lowest for nearly 35 years. If achieved it should provide a platform for sustainable growth later.

The recession is not as deep as popularly believed. The output shortfall compared with trend is less than it was in the last two recessions in five of the G7 countries. Only in the UK and Canada has it been substantially greater. And it is only in these two countries that it has turned out to be the longest post-war recession.

On an international scale, we have so far seen only a growth slowdown and not a classical recession. By contrast, in both 1975 and 1982 the growth of real gross national product came to a complete halt in the G7 countries taken together.

It is true that this time round the US and Canada experienced an absolute drop in output in 1991, as the UK did in both 1991 and 1992. But these were offset by other countries that did not begin their recession until rather later.

Another way of looking at the matter is to track nominal gross domestic product, which is made up of real growth plus underlying inflation. This has decelerated from an excessive 8 per cent per annum in 1988 to about 4½ per cent at present. It is expected to rise to only 5½ per cent by 1994. Moreover, because of the expected drop in inflation, more of this expenditure increase will represent real growth. But at no stage in the recent past have the recorded figures shown anything like genuine depression.

The OECD is rightly concerned that the relatively weak recovery it now sees in prospect will not be enough to prevent unemployment rising further. Exactly the same thing happened in the last cycle in the early 1980s when unemployment in the G7 group continued to rise during the first year of recovery by even more than the OECD expects it to do in 1993 and to a higher level.

What obviously worries the OECD economists is not their central projections but the downside risks. All their "alternative scenarios" involve lower growth. The first of these is "sustained weakening in the US and Japanese private sectors". The main effect here is expected to be reduced growth in these two countries with only modest spill-over. Developments since the projections were prepared suggest that the countries are not on a par. While the US seems at last to have embarked on a real recovery the outlook for Japan has become cloudy indeed.

The other two scenarios show higher wages in Germany and slower than expected progress in reducing the German budget deficit. In each case the effect is deleterious to European as well as to German growth, mainly because it will delay the expected drop in German short-term interest rates.

If all goes well, these are expected to fall from an average of 9¼ per cent in 1992 to below 8 per cent in 1993 and just above 6 per cent in 1994.

The OECD looks at the case for fiscal stimulation for countries which still have either low budget deficits or low debt ratios. It is clearly not keen on stimulation even for these, and remarks that any such package should be "both temporary and accompanied by a credible commitment to unwind it when the economy picks up".

There is also a lot of emphasis in the Outlook on improving the quality of existing public sector spending to obtain better value for money. But surely this is something which should be done in any case; there is some muddle here, as there was in the UK Autumn Statement, between public investment as a long-term supply side measure and as a component of demand.

Reading as best one can among the qualifications and the OECD-speak, the basic view seems to be that while there is a modest recovery in prospect which should not be artificially boosted, there is also a downside risk of genuine depressionary forces. Of course governments should be prepared for the latter. But the OECD does not tell them how.

Its main suggestion on monetary and exchange rate policy is "to provide market participants with more systematic information about underlying trends in relative inflation performance in Germany and elsewhere". The hope is that they would then realise that France and some other countries have "out-performed Germany on the inflation front and are likely to continue doing so for some time", and thus allow these good performers to lower their interest rates without putting their exchange rates in jeopardy. It is no crime to argue with the markets in this way; the question is whether it would do much good.

If one wants to cheer up, the place to look is at the new section of the Outlook dealing with the "dynamic Asian economies", excluding Japan. Even in these countries output growth "is subsiding to a pace likely to relieve inflationary pressures". But in the case of the four "tigers" – South Korea, Taiwan, Hong Kong and Singapore – the slowdown is from an average of 7½ per cent to 6¼ per cent, with an expected recovery to 7 per cent in the next couple of years. The star performer is China, where growth is estimated at 11 per cent. Even the Indian growth rate is put at 3 per cent, higher than any G7 member, and is expected to accelerate in 1993. If OECD analysts had reflected more on the Asian experience they would have been better able to draw a moral.

Governments should be prepared. But the OECD does not really tell them how, except by arguing with markets

How OECD sees the world

Growth of real GDP in %

	1987 share in total OECD	1990	1991	1992	1993	1994
US	36.0	0.8	-1.2	1.8	2.4	3.1
Japan	19.1	5.2	4.4	1.8	2.3	3.1
Germany	8.8	4.5	3.7	1.4	1.2	2.9
France	7.6	2.2	1.2	1.9	1.6	2.8
Italy	6.0	2.2	1.4	1.2	0.8	1.7
UK	5.5	0.5	-2.2	-1.0	1.3	2.4
Canada	3.3	-0.5	-1.7	1.3	3.2	4.2
Total	85.7	2.4	0.9	1.5	2.0	2.9

Inflation % (GDP deflator)

	1980-89 average	1990	1991	1992	1993	1994
US	4.7	4.3	4.0	2.7	2.3	1.9
Japan	1.8	2.1	1.9	1.7	1.7	[illegible]
Germany	2.8	3.4	4.5	5.5	4.6	3.3
France	6.6	3.1	2.8	2.2	2.6	2.1
Italy	10.8	7.6	7.3	4.5	5.0	5.2
UK	6.3	6.3	6.4	5.0	4.1	[illegible]
Canada	5.2	3.3	2.7	1.0	2.2	2.1
Total	4.5	3.9	3.6	3.1	2.8	2.4

Major declines in asset prices from last peak

		% decline since peak
Equities		
Japan	Tokyo Stock Exchange	-60
Finland	Industrials	-55
Norway	Industrials	-28
Real estate		
US	Commercial property, north-east	-25
Japan	Residential land, six leading cities	-20
UK	House prices, first time buyers, south-east	-25
	commercial property, London	-45
Finland	House prices	-35
Norway	House prices	-26

Source: OECD

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Eurostat supports new trade data system

From Mr Yves Franchet.

Sir, In her article "Blackout on trade figures at time of great import" (December 14), Emma Tucker gives the impression that Eurostat did not attach enough importance to Intrastat, the new system of collecting intra-EC trade figures.

Nothing could be further from the truth. Intrastat is one of the most important projects we have ever undertaken.

The single market means removal of the customs formalities on which current trade figures are based. As a result of general acceptance that trade figures would still be essential after 1992, Eurostat started to develop a new system of collecting data as early as 1985. By the beginning of 1989 our plan was ready to submit to the Council of Ministers. However, the complications resulting from the linking of Intrastat with the VAT systems of member states delayed final approval until November last year. Only then could we begin detailed implementation.

Since then Eurostat has underlined the importance of Intrastat by what amounts to a quite exceptional level of support for its implementation. Our aim throughout has been to reduce the burden on the business community.

Such a fundamental change to European trade statistics is challenging for everyone. In theory, running the old and new systems side by side might seem "sound practice". In practice, think of the burden on already hard-pressed business people.

At the end of the day, Intrastat will mean a cheaper and simpler way to obtain detailed, harmonised and comparable figures on intra-Community trade. Surely an invaluable resource for any business seeking to exploit the challenge of the single market?

Yves Franchet,
director general,
Eurostat,
Jean Monnet building,
rue Alcide De Gasperi,
Luxembourg

Reforms to boost confidence in audit should be acknowledged

From Mr W I D Plaistowe.

Sir, John Roques, in his article "Two sides of a single coin should draw together" (December 3), makes one good point and a number of poor ones.

He is absolutely right to point out that corporate failure does not equate with audit failure. However, I find it particularly worrying that Mr Roques is unwilling to acknowledge recent far-reaching reforms in the profession, intended to boost confidence in the audit and in the regulatory process.

Mr Roques could have mentioned the institute's recent strengthening of ethical guidance for auditors, moves to greater openness, and the overhauling of the disciplinary processes. In a true and fair view he would have acknowledged that, with the new audit regulation system introduced by parliament only just over a year ago, it is far too early to reach any sensible judgment on its effectiveness, let alone its organisational location.

More surprising, in the current debate on auditing, Mr Roques failed to mention the Auditing Practices Board's consultative paper, "The Future Development of Auditing", which addresses many of the most contentious issues of the day. The APB may be funded by the Consultative Committee of Accountancy Bodies, but it is now an independently minded and forward-thinking body, with a number of non-accountant members. The latest APB paper is intended to promote public debate and this institute will be taking a major role in considering and commenting on the very important matters raised by the APB on very difficult issues. I am not persuaded that the APB, which was only established last year and is already doing good work, would be more effective if its reporting line were changed merely in some pursuit of improved liaison.

In short, many of the "problems" in the existing set-up that Mr Roques calls on as evidence to support his argument have already been resolved or are not, in fact, problems at all.

W I D Plaistowe,
president, Institute of Chartered Accountants,
Chartered Accountants' Hall,
Moorgate Place, London EC2

A weighty solution to the problem of red tape

From Mr Simon Thornton.

Sir, While Charles Batchelor's article on red tape (Growing Business, December 15) highlights the burden that government bureaucracy places on small businesses, it misses one crucial point – nobody knows precisely how big the problem is, or whether the situation is improving or worsening.

To combat this ignorance, an immediate survey should be carried out to assess the precise costs of understanding and complying with the various regulations. To gain an accurate picture, it will be essential for all businesses to provide information. However, if the task is designated to one of the more customer-oriented government departments, the necessary questionnaire would run to no more than, say, 50 pages (plus notes, of course) and would take a maximum of two days for company directors to complete.

Simon Thornton,
director,
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Pay and experience of non-executive directors

From Mr Peter M Brown.

Sir, David Daws suggests (Letters, December 12) that to do a proper job non-executive directors need to commit a minimum of 180 hours a year to a company and should receive fees of £32,000-£53,000.

As we advise NEDs and remuneration committees we are frequently asked to recommend fee rates for partially executive chairmen, partially executive and non-executive directors. Our solution to the problem posed by Mr Daws, whereby top flight professionals could be unwilling to accept the £12,000-£20,000 normally offered, is that stand-by fees should be arranged to cover additional training, crisis management or takeover bids where the NED is required to commit additional time at short notice.

The problem with high fees for partially executive directors is that they can lose their independence as two or three such appointments add up to a significant income.

We have recently recommended fees of £45,000-plus for partially executive chairmen of medium-sized PLC groups but are conscious that in a takeover with no service contract such fees might lead them to over-oppose a bid.

There appears to be no shortage of high quality candidates at current NED rates though I know that leading professional firms are unwilling to allow their partners, for conflict of interest and fee reasons, to serve as NEDs as often as they probably should.

Peter M Brown,
chairman,
Top Pay Research Group,
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From Mr Keith Nicol.

Sir, Andrew Jack's article ("New breed on the board", December 4th) bemoans the shortage of non-executive directors with marketing skills and overseas experience. Perhaps one reason is an alleged tendency to take only individuals who have served on the boards of UK publicly quoted companies. This may have merit but it excludes an important pool of experience, namely board members of UK subsidiaries of foreign multinationals. Such people are likely to have made a range of overseas contacts (and in some cases worked abroad) as part of their "in-company" career and can be expected to bring a broader perspective to many marketing and overseas issues.

Keith Nicol,
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Bomb damage insurance essential if businesses to avoid closure

From Mr Anthony M Lorenz.

Sir, As if the property market were not already on its knees, the recent threat by insurers to refuse cover for bomb damage has severe implications not just for the property market but for the survival of many businesses that may be affected by terrorist activity.

While landlords are normally obliged to provide comprehensive buildings cover, it is unlikely that a court would find them in breach of their obligations if they were unable to obtain insurance against terrorism.

On the other hand, tenants remain obliged to pay their rent for three years even if they cannot use their offices because of bomb damage. They are then obliged to move back into the reconstructed building or take on the liability of disposing of the lease. To add insult to injury, insurers may well now refuse contents cover which could close a business down permanently overnight.

Terrorism itself is a national problem and should not be viewed as a private one. Surely the time has come for the government to accept that part of its responsibilities for tackling terrorism is to cover landlords and tenants where insurers have refused, as they have done in Northern Ireland.

Perhaps it will mean another half-penny or thereabouts on income tax, but it is the government's duty to stamp out terrorism and to cover the financial consequences.

A precedent was set by the government at the end of the second world war in creating the War Damage Fund, and a similar example should now be set by this government to prevent a major crisis.

Anthony M Lorenz,
senior partner,
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OBSERVER

Power-lust package

■ Goodness knows how many small boys have been turned off science for ever by finding that the chemistry kits they were given for Christmas contained nothing fit to cause a respectable explosion. But what price a new kit from Japan which replaces the lure of the big bang with the scientific Holy Grail of cold fusion?

The prospect of harmlessly harnessing the process that powers the sun and stars galvanised the world when Martin Fleischmann and Stanley Pons announced three years ago that they had done the trick. Despite countless repetitions of their experiment, however, the results have proved a damp squib.

Far from there being a surge of radiation, it was hard to tell whether any more electricity came out of the process than had been fed into it in the first place.

The Japanese test kit is designed to provide better proof by detecting an atom that only cold fusion could produce: helium-4. But it is hardly a Christmas gift the average family could afford. Marketed by NTT's Advanced Film Technology, the package costs £360,000 – and no money-back guarantee if it fails to deliver the goods.

Trivial pursuit

■ Meanwhile, after the toppling of Brazil's president, Fernando Collor, Brazilians can spend the festivities seeing whether they can do any better by playing a board game devised by a Rio professor.

Looking as if it is destined to be the country's best-selling present, the game is called Casa da Dinda after Collor's house, which was the centre of much of the corruption scandal that ousted him.

Players have the choice of following corrupt or ethical paths with a view to being first to win the presidency and keep it. Among hazards en route are love affairs between ministers, a symbolic sea of mud, and battles with the ever-present inflationary dragon.

Temptations include kickbacks from government contracts which players can use to buy flats in Paris and Babylonian gardens à la Collor, while the ultimate obstacle comes in the shape of a vengeful brother determined to destroy everything.

Mugged

■ Still on the subject of presents, the lull in new product launches in Britain's royal memorabilia market seems to have ended. One company, no doubt staffed by republicans, has produced a "Windsor in Flames" commemorative mug. On one side is a picture of a burning Windsor castle, while the other has a cartoon of a monarch, plus corgis, living in a cardboard box on the Embankment and saying "Can you spare us £60m, guv?"

Rather surprisingly, the Guardian carried the advert but Time Out, the London listings magazine, rejected it. Bet that wouldn't have happened when it was being run by the previous bunch of lefties.

Natural choice

■ Sir John Nott's arrival in the hot-seat at Hillsdown, the most lowly rated company in the food manufacturing sector, raises the inevitable question of whether former defence secretaries make good butchers.

Windfall

■ A legal variant of selling Nelson's Column to foreign visitors has been found by tourist officials in south-east England – flogging the White Cliffs of Dover.

Chunks of chalk from the famous landmark are on sale for £3.50 a

'That's the bag for Great Britain'

branded canful at the Channel port's White Cliffs Experience centre. But its staff deny that they're profiting by dismantling Britain's bastion against the likes of Napoleon and Hitler.

"Bits fall off the cliffs from time to time, and we have now been allowed to collect and market them," one explained.

Home again

■ Harry Oppenheimer, the grand old man of South African mining, would dearly love his Anglo American group to be back playing a big part in the Zambian copperbelt. And it sounds as if his wish may come true now Zambia's government is considering privatising ZCCM, the state-run copper giant.

Given its historical ties with the area, Anglo is the obvious candidate to run the industry, and in S G Warburg it has a merchant bank with an inside track. Not only is Warburg close to Anglo currently, but it was advising the Zambian government when it nationalised Anglo's huge Zambian copper interests back in 1970.

Not that Anglo will hold this against Warburg. The generous hard-currency nationalisation terms provided the foundation on which Anglo's offshore arm, Minorco, was built. Minorco's performance may have been less than dynamic, but it has certainly been a better investment than Zambian copper.

Clarification

■ Announcing the cancellation of an EC executive commission meeting in fog-bound Strasbourg yesterday, an official explained: "Many commissioners have lost their way . . .", then hastily added that he wasn't speaking symbolically.

Misdirected

■ Having difficulty understanding the EC's complicated second banking directive? Take heart, the Conservative party research department cannot even spell it. It has just issued a briefing paper – The Second Banking Directive Reguatlions.

At least they managed to keep the A in banking . . .

Up-beat

■ Music-lovers of the world, take heart – the fight back has begun. A court in Hong Kong has just suspended nine-month jail sentences passed on two club-goers who responded to a karaoke singer by beating him up.

Although the song being murdered by businessman Lau Kin-chung was not My Way, but a Cantonese number called Just Once, it proved too much for defendants Chu Wai-kit and Lo Hoi-sze. They claimed the assault was provoked by "intolerable singing".

Moreover, their lawyers said they were not the only assailants: just the ones who'd been too drunk to get away before the police arrived.

FINANCIAL TIMES
Thursday December 17 1992

US calls for 'aggressive measures' against Serbs

By Robert Mauthner in Geneva

THE US yesterday called for "more aggressive measures" by the international community against the Bosnian Serbs, but other countries opposed military intervention in the Bosnian conflict.

In Paris, a French junior foreign minister, Mr Georges Kiejman, said the US was proposing the pre-emptive bombing of Serb targets in an effort to halt the slaughter of Bosnian Moslems, but that France and Britain opposed such a move.

Instead, France and Britain supported the interception and, if necessary, the destruction of Serb aircraft which violated the United Nations Security Council's ban on flights over Bosnia.

Mr Douglas Hurd, the British foreign secretary, did not deny that such measures were being discussed at the UN and elsewhere, but stressed that no agreement had yet been reached.

Mr Pierre Bérégovoy, the French prime minister, said in Paris that he backed the use of force if necessary but he added it was vital the EC and the UN continued to act together.

Mr Bérégovoy told parliament: "The French government does not rule out any solution to bring the massacres to an end."

Mr Lawrence Eagleburger, secretary of state in the outgoing US administration, addressing the 29-nation conference on the former Yugoslavia in Geneva, made no mention of a pre-emptive bombing proposal.

But he specifically referred to the US and other governments' recommendation that the Security Council should authorise enforcement of the no-fly zone in Bosnia and re-examine the arms embargo against Bosnia-Hercegovina.

Mr Eagleburger said that it was essentially the Serbs who had broken the promises made at August's London conference on the former Yugoslavia, which included commitments to ensure unimpeded delivery of humanitarian aid, to lift the siege of cities, to halt all military flights over Bosnia, to place all heavy weapons under UN monitoring and to shut down all detention camps.

"It is clear that the reckless leaders of Serbia, and of the Serbs inside Bosnia, have somehow convinced themselves that the international community will not stand up to them now and will be forced eventually to recognise the fruits of their aggression and the results of ethnic cleansing."

Both Mr Cyrus Vance and Lord Owen, the co-chairmen of the Geneva peace conference on the former Yugoslavia, counselled caution on military measures to enforce the ban on flights and came out firmly against a lifting of the arms embargo in favour of the Bosnian Moslems.

Mr Vance recognised that breaches of the Security Council's no-fly zone resolution needed to be examined. But he emphasised that Unprofor, the UN protection force in the former Yugoslavia, had not detected any use of fixed-wing aircraft in support of combat operations in Bosnia-Hercegovina since the resolution was passed two months ago. Nor could it supply any confirmation of allegations that helicopters had been used in an offensive role.

In deciding whether to employ military measures to enforce the flight ban, the Security Council had to take into account the risk of retaliatory action against UN troops and aid workers.

Japan to slow pace of financial reforms

By Robert Thomson in Tokyo

THE Japanese government is likely to slow the planned entry of banks into the securities industry in an attempt to give the country's ailing brokerages a chance to recover from the Tokyo market collapse.

Negotiations continued last night among Finance Ministry officials on the details of a reform package to be announced today or tomorrow, but it is expected that banks will be restricted to the sale and underwriting of bonds.

The government originally intended that the reforms, due to be introduced from next April, would allow the banks, through new securities subsidiaries, to underwrite stocks and play a gradually larger role in stock trading.

However, strong lobbying by brokers, most of which reported large losses in the first half to September, and by friendly politicians in the ruling Liberal Democratic party has forced the ministry to slow the reforms.

In return for banks' entry into the bond market, Japanese securities houses, through subsidiaries, are likely to be allowed to enter trust banking and be given more freedom in dealing in currency products.

Finance Ministry officials insist they have not abandoned the principle of deregulation, but say the difficult circumstances in the broking industry have forced a review of financial reforms.

The slowing of the reform programme could draw criticism from the US and EC, which have encouraged Japan to remove the barriers between the banking and securities industries and to provide greater freedom for foreign institutions.

Mr Sakae Kudo, chairman of the Japan Securities Dealers' Association, said yesterday securities markets were already too competitive, and reforms should be delayed until the stock market improved, giving brokers a better chance of succeeding in new banking businesses.

Allowing banks to enter bond-related business will provide more competition for the larger Japanese brokers, but will have a limited impact on smaller and more vulnerable brokers, which are heavily reliant on stock commissions for their income.

THE LEX COLUMN

VW changes down

Doubtless Volkswagen derives a certain comfort from the hard luck stories of others in the European car industry. Daimler-Benz, Ford and Peugeot also had tales of woe yesterday. Yet VW's troubles run deeper than the cycle. They also present an opportunity for Mr Ferdinand Piëch, who is to take charge in January.

Volkswagen's largest problem is that its main Wolfsburg plant is both inefficient and expensive to run. It has tried to get round this – and simultaneously to exploit growing markets in eastern and southern Europe – by expanding abroad. But diluting its German costs in this way was never more than half a solution. High fixed domestic costs meant that lower capacity use in a downturn would feed through to the bottom line with brutal rapidity. It is thus no surprise that Volkswagen itself is talking openly of cutting its DM11 dividend, and that some believe the payout may have to be omitted altogether before things finally improve.

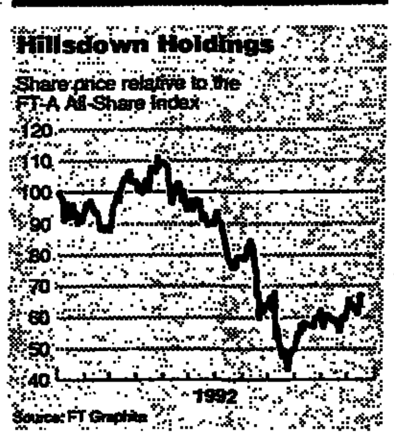
Pessimists argue that the presence on the supervisory board of such luminaries as the Lower Saxony state president and Mr Franz Steinkühler, head of the metalworkers' union, will only complicate the task of rationalisation. But Mr Piëch's performance in charge of Audi shows he is made of stern stuff – and he was chosen by the supervisory board in preference to the less hawkish Mr Daniel Goeudevert, another top executive.

The latest profit warning may be designed at least in part to prepare the political ground for some rigorous cost trimming soon after he enters office. VW is certainly making a meal of it. Its estimate of a 20 per cent decline in the German car market next year is markedly more pessimistic than the consensus. Were Mr Piëch to begin with an onslaught on costs, the slide in VW's share price which has seen it shed 43 per cent since May might yet be arrested. Until then, the downside risk remains considerable.

IBM

IBM's long history of underperformance on Wall Street means investors might be forgiven for doubting whether the latest restructuring effort marks the turn. With the dividend now officially in doubt, the shares certainly look vulnerable. But a cut dividend should hardly come as a surprise. Mr John Akers had already challenged some cornerstones of strategy – not least faith in mainframe

FT-SE Index: 2732.8 (+14.9)



computers – and the cherished policy of full employment. The maintained dividend commitment looked likely to be next on the block. More worrying is that IBM seems as far as ever from a sustained recovery.

Even before restructuring charges, IBM will do well to break even at an operating level in the fourth quarter. The cycle has been cruel. The downturn in Europe and slowdown in the Far East are hurting just as the US market is showing the first signs of life.

That said, the incumbent management must take its share of the blame. The promise, under pressure from institutional investors, to take out another $1bn administrative expenses next year underlines that more could have been done earlier.

Problems in mainframes mask promising performances in mid-range business and personal computers. How that value can be realised is another matter. Mr Akers has already loosened the corporate grip on the constituent parts of the empire, with no obvious effect on profitability. More radical solutions may be required. There are formidable obstacles to any demerger, not least IBM's large integrated sales force. Having watched the shares underperform by 80 per cent since 1985, though, shareholders are running out of patience.

Owners Abroad

Airtours may have made an informal approach earlier this year for rival tour operator Owners Abroad but the Germans have now firmly laid out their towels on the beach.

In seeking a 10 per cent stake in Owners Abroad, the German LTU Group aims to secure its strategic position in the UK package holiday market following its recent acquisition of the Thomas Cook travel agency. But LTU also envisages considerable operating benefits from pooling its German chartered airlines and tour operations with those of Owners in the UK.

As for Owners, the proposed deal brings a useful cash injection and access to the 340-outlet Thomas Cook chain. This will allow it to achieve the vertical integration which has become the latest rage for tour operators. Such a low-risk diversification may be particularly appreciated by Owners' shareholders given their company's distinctly patchy acquisition record.

But the deal also has clear defensive implications – not least in diverting attention from a pretty dismal set of annual trading figures. It is of course possible that the move may flush out a hostile bid from Airtours. Either way. Owners' shareholders should be happy enough to sit tight.

Hillsdown

The 7 per cent rise in Hillsdown's share price yesterday may have been rather a rude way of greeting the news of the proposed departure of the group's founder and guiding spirit, Sir Harry Solomon. Hard-hearted shareholders perhaps viewed the move as little more than a small but favourable step in the food group's rehabilitation process – although Hillsdown's confirmation of its dividend forecast also helped.

If Sir Harry's strategy of buying low quality businesses at cheap prices and knocking them into shape proved a highly successful strategy for the 1980s, the recession cruelly exposed its limitations. Fresh strategic thinking will surely be required to chart the company's future course and earnings revival. But in the short term, at least, the new management team is only likely to press ahead, if more purposefully, with the current round of rationalisation and retrenchment.

Hillsdown's shares have recently been helped by the hints of general economic recovery and a consequent re-rating of the lower quality food manufacturing stocks. This process may yet have a little way to run. Hillsdown, though, will have to come up with some answers of its own. The worry is that sometimes even good management cannot escape an unfavourable market position.

World recovery will be weak in 1993, predicts OECD

By Peter Marsh in Paris

THE INDUSTRIALISED world will see only a weak recovery next year, with a further rise in unemployment, the Organisation for Economic Co-operation and Development said yesterday.

The 24-nation body said in its twice-yearly Economic Outlook that short-term prospects for growth across the developed world were "relatively sombre", while inflation was likely to fall by the end of 1994 to its lowest level for more than 30 years.

Mr Kumiharu Shigehara, the OECD's chief economist, said he could not rule out the current period of decline turning into a 1930s-style slump. However, such an outcome was not particularly likely, because developed countries were now better able than then to co-ordinate policies to stop damaging falls in output and confidence.

In spite of this, Mr Shigehara warned that governments were restricted in their efforts to boost output by expanding state spending because of large budget deficits in many countries.

The OECD was especially gloomy about unemployment. It forecasts that 34m people will be jobless in OECD countries by the end of 1993 – 10m more than at the most recent low point for unemployment in the first half of 1990. "Many of those who become unemployed over the next two years will drift into long-term unemployment, with all that entails in terms of erosion of skills and morale, and financial hardship," it said.

The organisation's central projection for the region is that growth next year will be 1.9 per cent – substantially lower than the 3 per cent it forecast six months ago. Growth this year is expected to be just 1.5 per cent.

The outlook is better on inflation, which the OECD expects will come down to 2.5 per cent by the end of 1994, its lowest rate since 1960.

Mr Shigehara said individual countries should take whatever steps they could to cut interest rates in the near future, while keeping inflation low.

German interest rates are expected to come down next year, enabling a broad reduction in rates across Europe.

On a more upbeat note, Mr Shigehara said recent economic data indicated the US economy was picking up slightly faster than expected a month ago. But the impact of this on overall output had been reduced by the greater slowdown in the German economy.

Details, Page 6
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Samuel Brittan, Page 15

Basque protesters demonstrate outside the European parliament in Strasbourg as UK prime minister John Major addresses European deputies

Kohl gives Russia 8 years' debt grace

Continued from Page 1

process at the Congress of People's Deputies last week.

Recognising fears for Russian stability and economic reform expressed by a delegation of German businessmen, he said: "Despite the political brawls in parliament, Russia is already on the way to a market economy."

Mr Yeltsin also appealed to German industry to play a leading role in the Russian reform process.

The latest agreements provide for a relatively modest amount of new money from Germany. An extra DM550m will be paid to house Russian soldiers returning from eastern Germany. The remaining 220,000 will leave four months early, by August 31, 1994. An extra DM1bn will also be paid in compensation for "victims of Nazi persecution".

The two sides agreed that the value of Soviet military installations was more than outweighed by the cost of cleaning up environmental damage after the Russian troops left. On the DM17.6bn owed to East Germany, Russia agreed to recognise the claim, while Germany accepted no repayment for eight years.

French rates

Continued from Page 1

Mechanism, of FFr3.4305. Another factor worrying dealers was that the franc fell yesteray to 77 percentage points on the ERM divergence indicator. Under the rules of the ERM, it is presumed that a central bank should defend its currency if it falls below the 75 percentage point level.

World Weather

		°C	°F
Ajaccio	S	16	61
Algiers	F	18	64
Amsterdam	C	7	45
Athens	F	11	52
Bahrain	S	24	75
Bangkok	F	31	88
Barcelona	Dr	10	50
Beijing	S	5	41
Beirut		–	–
Belfast	S	3	37
Belgrade	S	9	48
Berlin	S	4	39
Biarritz	F	13	55
Bombay	S	30	86
Bordeaux	R	9	48
Boulogne	S	8	46
Brussels	S	9	48
Budapest	Dr	2	36
Buenos Aires	F	28	82
Cairo	F	13	55
Cape Town	S	21	70
Caracas	F	29	84
Casablanca †	F	17	63
Chicago †	C	2	36
Cologne	F	7	45
Copenhagen	C	6	43
Corfu	F	11	52
Dallas †	C	5	41
Dublin	F	3	37
Dubrovnik		–	–
Edinburgh	Sl	1	34
Faro	F	16	61
Florence	S	9	48
Frankfurt	F	2	36
Geneva	[illegible]	5	36
Gibraltar	F	16	61
Glasgow	C	3	37
Helsinki	C	5	41
Hong Kong	S	21	70
Innsbruck	[illegible]	1	34
Inverness	F	[illegible]	34
Islamabad	F	18	64
Istanbul	Sl	2	36
Jakarta	R	31	88
Johannesburg	F	29	84
Lisbon	F	13	55
London	F	11	52
Los Angeles †	S	8	46
Luxembourg	F	5	41
Madeira	F	18	64
Madrid	[illegible]	[illegible]	45
Majorca	F	15	59
Malaga	F	16	61
Malta	F	19	66
Manila	F	29	84
Melbourne	F	18	64
Mexico City	F	22	71
Miami †	S	20	68
Milan	C	4	39
Montreal †	C	0	32
Moscow	C	1	34
Munich	F	0	32
Nairobi		–	–
Naples	F	12	54
Nassau	F	26	78
New Delhi	S	18	64
New York †	F	3	37
Nice	S	15	59
Nicosia	F	13	55
Oporto	R	10	50
Oslo	R	6	43
Paris	C	8	46
Prague	C	1	34
Reykjavik	C	-2	28
Rhodes	S	11	52
Rio d'Janeiro	C	34	93
Rome	C	11	52
Salzburg	Fg	-2	28
S'Francisco †	S	7	45
Seoul	S	4	39
Singapore	F	29	84
Stockholm	C	6	43
Strasbourg	Fg	0	32
Sydney	C	20	68
Taipei	C	20	68
Tangier	C	16	61
Tel Aviv	F	8	46
Tenerife	C	20	68
Tokyo	S	10	50
Toronto †	F	7	45
Tunis	S	18	64
Valencia	F	13	55
Venice	C	5	41
Vienna	C	1	34
Warsaw	Fg	0	32
Washington †	C	3	37
Zurich	Fg	-1	30

Temperatures at midday yesterday
† Noon GMT temperatures
C – Cloudy Dr – Drizzle
F – Fair Fg – Fog H – Hail
R – Rain S – Sunny
Sl – Sleet Sn – Snow
T – Thunder

FINANCIAL TIMES SURVEY

ZAMBIA

The country's tourist industry needs heavy investment; Page 6

SECTION III

Thursday December 17 1992

AFTER more than 25 debilitating years of mismanagement and regional wars, Zambia is making a fresh start.

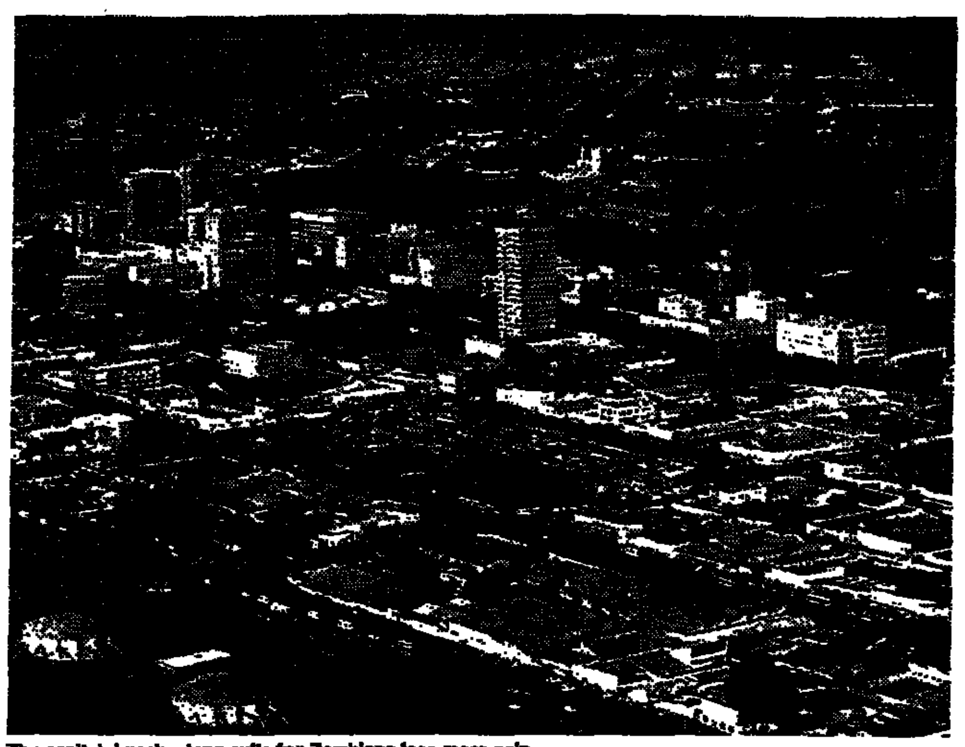
Peaceful elections in October 1991 marked the collapse of one party rule. A country once synonymous with African socialism has embarked on a reform programme as radical as any undertaken in Africa, which is being implemented at an unprecedented pace.

Fourteen months after his overwhelming victory in Zambia's first multi-party elections in two decades, President Frederick Chiluba has won plaudits from donors and endorsements from the IMF and World Bank.

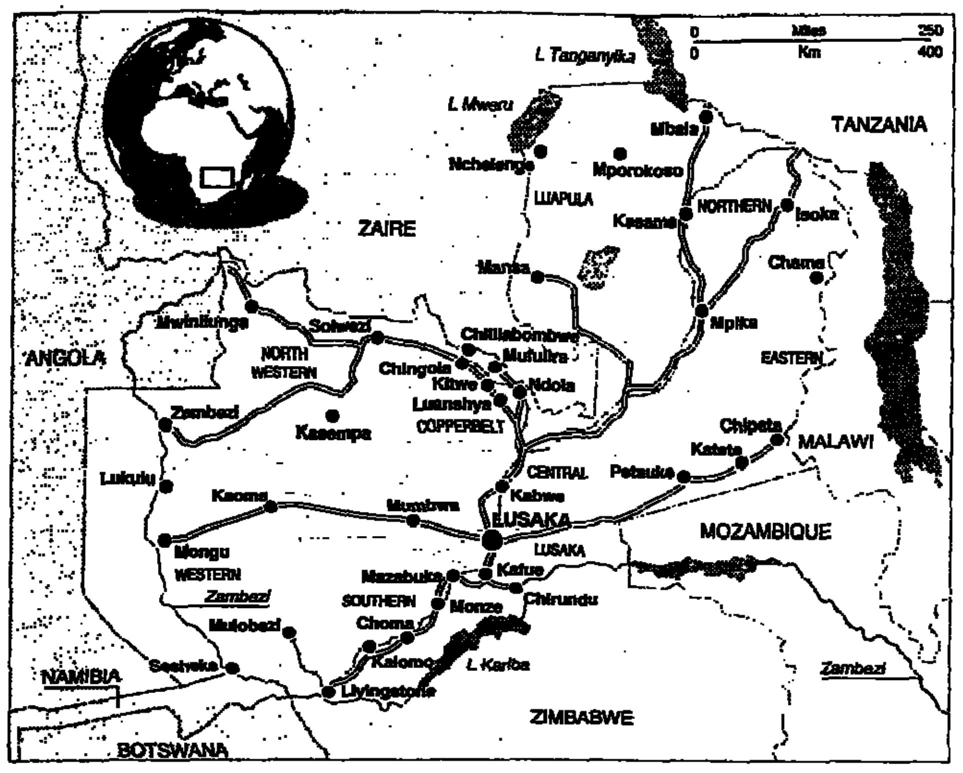
Yet although aid and debt relief have been substantial Africa's newest democracy is under strain. The worst drought in living memory has contributed to a 10 per cent fall in gross domestic product fall. Government and private sector management is weak and daily depleted by Aids. Inflation is running at more than 100 per cent, on a year-on-year basis. Infrastructure is frail, social services are impoverished and industry needs re-equipping.

Export receipts and aid flows may be enough for bare survival, but fall far short of what is needed for sustained recovery. Further painful reforms lie ahead and the impact on Zambia's social and political fabric will be severe. "To make democracy work we need a sound economic base, and that we are unable to provide without more help," said President Frederick Chiluba.

Last October Mr Chiluba, a former trade unionist, led the Movement for a Multi-party Democracy to a sweeping victory. The MMD won 125 of the 150 National Assembly seats and Mr Chiluba secured 81 per cent of the presidential poll. For the first time since 1972, when Zambia became a one party state, the country had a choice. The electorate could hardly have been more emphatic in its rejection of the country's founding president, Mr Kenneth Kaunda and the United National Independence Party, in power since independence in 1964.



The capital, Lusaka: long-suffering Zambians face more pain



IN THIS SURVEY

Editorial production: Sarah Murray

Fresh start for Africa's newest democracy

While the government is bravely implementing radical reforms, more help is needed to combat a severe drought and to overcome the legacy of the Kaunda years, writes **Michael Holman**

In the weeks that followed the new government began tackling the legacy of Mr Kaunda. Executives of state owned corporations created under a late 1960s nationalisation programme were sacked. Subsidies were cut, the kwacha was soon to be further devalued, the agricultural marketing system liberalised.

Fresh impetus was given to the privatisation of 150 state-owned companies including Zambia Consolidated Copper Mines, responsible for more than 90 per cent of export earnings.

It was as rude a shock as any African economy has experienced, but shock therapy was necessary, argued Mr Emmanuel Kasonde, the finance minister, when he delivered the MMD's first budget address in January. "Our bitter experiences of the past have shown that piece-meal or half-hearted implementation of reform will get us no-where," he told the National Assembly.

The MMD inherited a disaster with roots that go back many years. When Zambia won independence from Britain in 1964 it had one of the highest per capita incomes of any black African state. By the time Mr Kaunda ceded power, Zambia had become – in per capita terms – one of the world's most indebted nations, its 8m people owing external creditors more than $7bn.

Mr Kaunda's own inheritance was not easy. Zambia's colonial era ended with about 100 university graduates. From the start of independence, landlocked Zambia was in the front line of southern Africa's battles, at considerable cost: transport routes were disrupted, defence spending soared.

To Mr Kaunda's credit, Zambia remained stable in a region at war, but far from resolving the problems he inherited, he compounded them, nationalising the country's two copper mines in the late 1960s, along with much of the rest of the economy. Agriculture suffered from too much state regulation and too little investment. Millions of kwacha were spent on white elephants, such as the Tika steel project.

In 1975 came a blow from which Zambia has yet to recover. The price of copper, accounting for over 90 per cent of export earnings, plummeted for the second time in five years. By 1977 ZCCM's contribution to government revenue had fallen from nearly 55 per cent of the total to nil, while nearly two thirds of the foreign exchange earnings were taken up by the cost of production.

The next 14 years saw a succession of failed recovery plans. The most serious obstacle to reform proved to be Mr Kaunda himself, reluctant to relinquish his socialist vision, presiding over a corrupt and authoritarian party.

By 1990, when he buckled under domestic and international pressure and reluctantly accepted multiparty elections, Zambia's fortunes had reached their nadir. Most donors had frozen aid, arrears in repayment to the IMF had reached $1.2bn and the outgoing government had spent millions of kwachas of state money in an attempt to buy victory.

The MMD, a broad coalition bringing together labour leaders, Unip defectors, prominent businessmen and a new generation of politicians and technocrats, has achieved much.

Its efficient response to the drought has been widely praised. ZCCM output has risen under the new management, a markedly improved business environment is more conducive to foreign investment and the privatisation programme is proceeding apace.

But long-suffering Zambians face more pain. The price of the staple food, maize, which has soared 500 per cent in real terms, rose again this month. Turning overstaffed state owned companies – notably Zambia Airways – into commercially viable organisations means more job losses. Cutting inflation – the aim is an annualised rate of 20 per cent by end-93 – requires further spending cuts and reductions in the civil service.

In last month's local government elections the MMD won a comfortable victory but the percentage turn-out barely reached double figures, reflecting the weakness of the opposition rather than a mandate for the MMD, whose honeymoon with the electorate is over.

A flawed constitution inherited from Mr Kaunda, now under review, encourages an authoritarian streak in some ministers. It allows bans on freedom of assembly and fails to guarantee press freedom. Nor has the MMD's status been enhanced by national assembly members' decision to award themselves tax-free salaries of $1,000 a month.

All this not only angers Zambians, it also undermines Mr Chiluba's plea for further assistance to help democracy take root. Yet for all the shortcomings, Mr Chiluba leads what is "probably one of the most modern, open and forward-looking governments on the continent," says Mr Mike Hall, editor of the Weekly Post.

This new dimension to Zambia's leadership offers hope for the country's future, tempered by the conclusion of a 1989 World Bank paper analysing Zambia's record: "When reform efforts finally got into high gear, the initial position was one of acute disequilibrium. The economy had no cushion and no safety net. Successful reform under these circumstances required nearly perfect foresight, technically valid policy packages, strong political commitment, uninterrupted implementation and good luck."

This might yet serve as warning that unless Zambia can rely on donors for further expertise and additional resources. President Chiluba warns: "If we lose this opportunity, I see no way out of the quagmire."

Interview with President Frederick Chiluba

A delicate balance

In an interview with Michael Holman, President Frederick Chiluba calls for further external debt relief, promises tough measures to tackle inflation and extends a welcome to foreign investors.

Holman: After a year of reform, what is your assessment of the economy?

Chiluba: We need more external support, especially debt relief. If we have to service the debt from our meagre resources, there will be nothing for our recovery. We appreciated getting the Trinidad terms [partial debt write-off] but more of our debt should be written off. It is a way of recognising the difference between this democratic government and its predecessor.

If we are to make democracy work, we need a sound economic base, and that we are unable to provide without more help. If we lose this opportunity, I see no way out of the quagmire.

What has been the effect of the drought?

It's the worst in living memory and has been a very big setback. We have lost 70 per cent of our maize crop. It's not only hitting agriculture. Energy supplies have been cut, so factory production falls. We expect more than a 12 per cent decline in per capita GDP this year.

But government responded promptly to the drought and acted more efficiently than surrounding states, while the international community rallied magnificently and magnanimously.

More cuts in government spending lie ahead, including reducing the civil service: how much punishment can Zambians take?

It's a very thin line between what is perceived as structural adjustment and what is perceived as punishment. But the civil service must be reorganised. We inherited a civil service and a political service, both employed by the state. We have got to trim it, otherwise you are accepting the rot.

We have also cut subsidies, which is painful – but now peasant farmers can sell maize at higher prices, and not only to the state but to private buyers. Socialist propaganda made people believe that the state should be the provider. I want to get government off peoples' shoulders and make them more self sufficient. But you have to carry people along while pursuing reform ... it's a very delicate balance.

How serious a threat is inflation?

It's public enemy number one. It means no savings, no investment, purchasing power wiped out. We have already cut government spending and cut the size of government itself. We are not going to print money. We're determined to bring inflation down.

Will the second year be as tough as the first?

In the early stages, yes. But by the second half, with inflation tackled, there should be slight changes for the better.

What role is there for foreign investors?

We need them – the economy needs their capital, their technology, their skills and expertise. The privatisation programme provides opportunities, the business environment has been radically improved. If we do not get foreign investment, the reform programme will be jeopardised to a large extent.

Will ZCCM [the state-owned copper mining company] be privatised?

President Chiluba: Zambians have rallied under the new freedom

Yes – but the government should hold on to some of its shares, because we have to create investor confidence. They will know we still care if we hold on to some shares.

Would you accept a bid for shares by Anglo American conditional on their taking over management of the mines?

That can be worked out when discussions take place.

But would you object in principle?

Anglo might want to bring in some staff from outside, but they would be working with the local staff. There are many qualified Zambians.

Are you concerned by corruption in Zambia?

It is part of the legacy of the old system, which we are still fighting. One way to do this is to ensure greater transparency in government and more accountability.

What principles will be most important when Zambia draws up a new constitution?

Entrenching the rights of the individual at the expense of the executive. The most striking thing about the past year is the way people have rallied under the new freedom. Zambia is enjoying a breath of fresh air – people are free to take initiatives.

THE PRIVATISATION OF ZCCM

Grasping the nettle

QUESTIONS hang over whether, when and how the Zambian government will privatise Zambia Consolidated Copper Mines, the giant copper producer.

Although the new government has shown a commendable willingness to take unpopular decisions, it is doubtful whether there is a larger nettle to grasp than the privatisation of ZCCM.

Not only does the company remain the single dominant economic entity in the country – it has often in the past been referred to as a "state within a state" – but it is also the repository for much emotional and ideological baggage.

Within the miserable economic legacy of President Kaunda, the nationalisation of the copper industry probably ranks as the greatest act of folly. It took place in two stages:

- In January 1970, the industry was reorganised with the government taking 51 per cent of the two companies running the industry – Nchanga Consolidated Copper Mines and Roan Consolidated Mines (merged into ZCCM in 1982).
- In late 1974, the government also took over the management of the mines, hitherto provided by companies associated with the Anglo American Corporation of South Africa and AMAX.

Nationalisation was disastrous. Strapped for cash, the government placed ever greater burdens on ZCCM forcing it into all sorts of peripheral activities at the expense of investment in the core business of mining metals. The result was a steady decline in production, slumping to a nadir of 387,000 tonnes of copper in the 1991/2 financial year from an average annual 600,000 tonnes combined production of Nchanga and Roan before they were merged into ZCCM.

The Chiluba government came to power in November 1991 on a platform which included privatisation as a vital component of its economic programme. However, scepticism has persisted about its strength of conviction – fuelled a few months ago when vice-president Levy Mwanawasa said he favoured taking "20 to 30 years" over ZCCM's privatisation.

'If you're an economic nationalist, you're just a lost economic dinosaur'

Supporting this view, is the fact that the company's restored profitability gives the government less incentive to proceed with a sell-off.

Second, many senior figures in government are intimately connected with the initial decision to nationalise the mines. Indeed, Mr Humphrey Mulemba, the incumbent minister of mines, presided over the nationalisation in 1970 in the same capacity as minister of mines. No matter what such men say in public, privatisation would involve a considerable humiliation.

Furthermore, the government has already been accused of seeking to make a quick buck and may be anxious to dispel such accusations.

However, the government will not want to compromise its hard-won economic reform credentials by bending to the wind over ZCCM. Baulking over the sell-off could also prompt the World Bank to make this a necessary condition for the provision of further aid.

Ministers also appear committed, albeit for different reasons. Although Mr Mulemba cautions that the government must be "very, very careful not to move carelessly", he adds that the privatisation of ZCCM is "one of those things we would like to push as quickly as possible". His reasoning is simple: maximising government spending options depends on putting ZCCM on a path of sustained profitability. This requires new private sector investment, which is most likely assured by withdrawing the spectre of government interference and control.

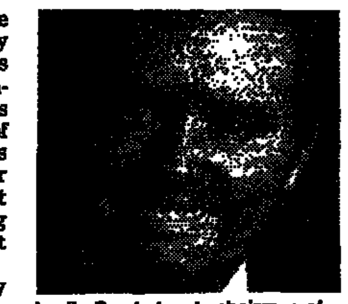
Dr Mathias Mpande, deputy minister of mines is unequivocal that his priority as a minister is to achieve the turnaround of ZCCM through privatisation. "If you're an economic nationalist, you're just a lost economic dinosaur in the world," he says.

Dr Mpande argues that whereas he originally envisaged a protracted debate of about a year, things are now going "very quickly. All parties want to get it over".

The World Bank will be conducting a study, during the first quarter of 1993, which will come up with an action plan for ZCCM's privatisation.

The other issue is what shape a sell-off would take. Mr Mulemba believes the government should maintain a minority stake, but says he is flexible depending on what will best foster investor confidence. Dr Mpande favours breaking up ZCCM into smaller units to attract as many foreign investors as possible, allowing the government to profit from competition between them.

Although many of South Africa and the world's main resource groups have shown interest in the Zambian mining sector – RTZ, BHP, Phelps Dodge, Gencor and JCI among them – Anglo American, holder of a 27.3 per cent minority stake in ZCCM, is in pole position.



Leslie Boyd, deputy chairman of Anglo American, holder of a 27.3 per cent minority stake in ZCCM

Anglo has not disguised its interest in lifting its stake, and Dr Mpande says he takes it for granted this will be the case. "When they come back they will be in charge of management, but there will be very little change. The people they need are already there. The human resource is there, but they can enrich it."

The chances of a total sell-off appear unlikely. The government will not want to forsake all influence over what is seen as the jewel in Zambia's crown. Any controlling shareholder is also likely to deem it prudent to have the government on board, if only to share responsibility for difficult decisions such as retrenchment.

Although the government is unlikely to commit itself until after the World Bank study is completed, the chances of the privatisation being resolved within the next year must be good. The interim is likely to see a good deal of horse trading as private investors jockey for a piece of the action.

Philip Gawith

COPPER

Reversal of fortunes

AT THE bottom of the Nchanga Open Pit, the initials MMD are emblazoned on the cockpit of one of the giant shovels shifting ore in the pit which is the largest single source of copper at Zambia Consolidated Copper Mines (ZCCM), the company which dominates the Zambian economic landscape.

It is an appropriate symbol because it is a reminder that the Movement for Multi-Party Democracy came to power in November 1991 on the back of organised labour, particularly the miners on the Copper Belt. The MMD's accession to power is the single factor accounting for the enormous turnaround in fortunes of ZCCM over the past year.

Copper is the fly-wheel of the Zambian economy. It accounts for more than 90 per cent of the country's foreign exchange earnings and much of Zambia's manufacturing industry supplies the industry.

Although the past 20 years have seen a steady decline in the Zambian industry's fortunes, historically the government derived more than 50 per cent of its revenues from taxes on copper sales.

Rock drilling: the industry has made great progress on the profit front

The 1992 financial year, to March, was a nadir for ZCCM. Repeated equipment failures – the result of government interference starving the company of necessary funds – saw ZCCM's copper production at an all-time low of 387,000 tonnes, 63,000 tonnes below the budgeted target of 450,000 tonnes. The company made a net profit of only K4.1bn.

A turnaround commenced, however, when the MMD government installed a new management team in November 1991. Average monthly production in the last four months of the 1991/2 financial year was 37,500 tonnes – 27 per cent higher than the average 29,600 tonnes during the first eight months.

The first eight months of the 1992/3 financial year have seen further progress. According to Mr Ed Shamutete, ZCCM's chief executive, production to the end of November was 4 per cent ahead of the target of 431,000 tonnes for the full year.

If this is maintained for the full year, as Mr Shamutete believes it will be, the company should achieve production of close to 450,000 tonnes – a 16 per cent improvement over 1991/2.

The company has also made progress in cutting costs. Mr Shamutete notes that the cost at mine (excluding interest, depreciation and capital expenditure, tax) has fallen from 73.5 cents per pound of copper produced in 1991/2 to 60.3 cents per pound in the seven months of the current year. By June 1993 the labour force will have been cut by about 10,000 to 46,000.

All of this translates to considerable progress on the profit front. For the seven months to the end of October, ZCCM made net profits of K19.7bn, compared to budgeted figures for the period of K11.5bn. "The results are very encouraging," says Mr Shamutete. "Things are going extremely well".

The improved cost, production and cost performances can be traced, in the first instance, to the access to power of the Chiluba government, committed to sound economic management. In ZCCM's case this involved installing new management with a mandate to return the company to its core business of mining metals.

Assurances were also given, which the government has upheld, that it would not interfere in the running of the company. Crucially, the government has also given ZCCM the necessary foreign exchange allocation to allow for rational operational planning.

Mr Shamutete confirms that the persistent shortage of foreign exchange through the Kaunda years has taken its toll on the company's infrastructure. In the short-medium term, Mr Shamutete says the company needs to spend about $150m in hard currency terms and $119m in local money equivalent annually for normal reinvestment.

For the next five years the company can meet these commitments from its own resources and with recourse to short-term loan facilities already in place.

What happens beyond this, however, is the question facing ZCCM's managers. During the next decade the massive Nchanga Open Pit will become uneconomic. Production from a replacement ore body must be in place in about seven years.

The source of this production will be the Konkola deep project, in the North of the copper belt. A recent feasibility study revealed that a new mine, with ore reserves of about 355m tonnes and a mill head-grade of 3.5 to 3.6 per cent copper, could be developed within six years.

Mr Shamutete says this mine should guarantee ZCCM maintaining an annual production level of 450,000 tonnes – possibly up to 500,000 tonnes – well into the future. He is hopeful the project will soon get the go-ahead.

Konkola has a price tag of about $550m, 70 per cent of which will be in hard currency. Mr Shamutete says that over the next 14 years, ZCCM will have to spend about $1.3bn in foreign exchange and $700m in local currency, both in 1991 terms, to ensure sustained production at the 450,000 tonnes per annum level. The bulk of this will be spent on Konkola.

Most likely is that ZCCM will develop Konkola itself, the required equity injection probably offering Anglo American the chance to increase its stake in the company. However the finance question is resolved, the improvement of ZCCM's balance sheet is a priority.

Currently the company owes $722m to various lenders and has paltry share capital of K893m, against annual revenues of about $1.2bn – a testimony to neglect and abuse by the previous government, the majority shareholder, matched by an understandable unwillingness on the part of minorities to invest further in a poorly run company.

Apart from a necessary capital injection, Mr Shamutete believes the debt can be restructured while assets, which have not kept pace with the devaluation of the Kwacha, need to be revalued.

Philip Gawith

Recovery is in sight but hard evidence is lacking

The mood changes

AFTER more than a decade during which Zambian economic management was the butt of cruel jokes, many of them justified, the Zambian economy is on the mend. But for now, recovery is more a matter of a radical change of mood since the new administration took office, with little concrete evidence, other than sweeping deregulation, that the corner has been turned.

"We are pointing in the right direction," says Mr David Frost, chairman of the Zambia Confederation of Industries and Chambers of Commerce "but the vehicle is stationery, if not still slipping backwards".

Figures bear this out. Inflation still running at 100 per cent – but down from 400 per cent in the dying days of the Kaunda administration – money supply is still out of control, GDP is forecast to fall 10 per cent in 1992 and a pre-rescheduling debt-service ratio of stands at 65 per cent of exports.

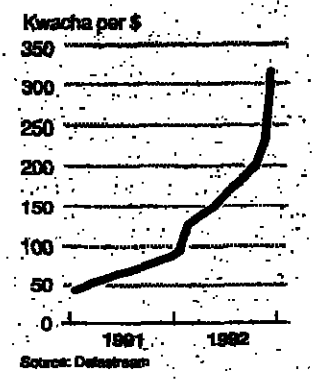
But there are some chinks of light. The 1992 budget deficit, excluding external debt-service, is down to 2.5 per cent of GDP from 7.5 per cent a year ago. If drought relief is taken from the numbers, the deficit is only 0.9 per cent – a remarkable achievement.

The Chiluba government has had its share of bad luck. Early forecasts of marginal economic growth in 1992 were torpedoed by the drought. The Kaunda administration's desperate final spending spree, designed to buy votes, translated into surging inflation during 1992. This is turn sparked massive devaluation with the Kwacha tumbling from K85 to the dollar a year ago to K325 in early December.

All agree that slaying the inflationary dragon is Zambia's top economic, and social, priority. The central bank, under the leadership of its new governor, Mr Dominic Mulaisho, has bravely liberalised financial and foreign exchange markets, pushing lending rates up to historic highs of 75 per cent or more for prime borrowers, and forcing the banks to hold two-thirds of their liabilities to the public in statutory or inner reserves.

With the impending introduction of a Treasury Bill auction system, the central bank will have abandoned direct controls over interest rates as well as the exchange rate, leaving the markets to call the tune. "We are democratising the economy," says Mr Mulaisho.

Kwacha



Source: Datastream

But there is only so much monetary policy can achieve when government borrowing is out of control. In the year to August, government borrowing from the banking system rose 300 per cent. Restoring monetary discipline now requires fiscal restraint.

This is promised for 1993 when the government says it will present a balanced budget, based on cash limits. This means the government will borrow only from the market – not the Bank of Zambia – and solely to bridge the gap between expenditure outgoings and revenue inflows.

At the same time, the cabinet is working on a "constitutional formula" to prevent overspending by the line ministries.

Cynics point out that budget balance was the target for 1992 and that one reason it was breached was because the planned 70 per cent public sector pay award escalated into one of 120 per cent. The drought added fuel to the flames as did Zambia Airways, reportedly losing $3m a month.

Indeed, after meeting the IMF's benchmarks in the second quarter of the year, in the September quarter the targets were missed and Zambia failed to accumulate any "rights" as part of the programme for repaying IMF arrears.

Officials say the programme is now back on track and December benchmarks will be met, but all agree that the fate of the programme hangs on the budget to be presented by finance minister Emmanuel Kasonde at the end of January.

In Paris last week, the government told a sympathetic donor community it would bring money supply down from its estimate of more than 70 per cent in 1992 to 17 per cent by the end of next year, while inflation would drop to 55 per cent and would be an annualised 20 per cent rate by the final quarter of 1993. These targets, the government says courageously, are minimum, not maximum, goals.

Much can, and almost certainly will, go wrong. Few believe that Zambia has either the managerial skills or the institutional capacity to push through so challenging a reform programme without mishaps along the way.

The debt overhang and the dependence on copper are further complications as is the deterioration of the infrastructure and a worsening AIDS epidemic. To these must be added two human problems: government recognition that the man in the street desperately needs to see some improvement in his living standards. "The political honeymoon is not going to last much longer," warns one international banker.

Children wash in the slums on the outskirts of Lusaka: Zambians desperately need to see some improvement in living standards

Above all there is the problem of culture change. Zambia has long been a paternalist society. This mindset has to change. The experience of the past 28 years demonstrates that a government, even with the most laudable motives, cannot be a fairy godmother.

Formidable though this task may be the transformation of the business mood is a reminder of the facts of economic life. Change at the top is a prerequisite for successful recovery and in its first year in office, the Chiluba administration has breathed new life into an economy which, 18 months ago, seemed in terminal decline.

Investment is a contentious area. Zambia's investment code is "the best in the region", according to Mr Bob May, managing director of Dunlop Zambia. But powerful voices in the business community believe it should be improved.

Officials say the government will introduce further improvements in the investment code in the January budget.

At the end of its first year in office, Mr Chiluba's government earns high marks for transparency, for its undisputed commitment to reform and for its courage.

What remains in doubt is its ability to translate intentions into performance. Achievements made so far will count for little if, next year, the government fails the stiff fiscal test of stern budget discipline.

With the local government elections behind it and no need to go the polls until 1996, now is the time to administer the fiscal dose without which economic decline will continue.

But there can be no quick fix. Mr Nick Brentall, managing director of Barclays Bank, Zambia, puts it into context. "It took us 27 years to get where we are. We are not going to get out of it in 27 months."

Tony Hawkins

PRIVATISATION

Committed approach

NO AFRICAN government is tackling privatisation with the enthusiasm demonstrated by the MMD administration. As a government of businessmen it has a strong ideological commitment to the programme underpinned by the more pragmatic consideration that subsidising inefficient parastatals is no longer viable.

Within five years, the government plans to sell more than 150 state-owned enterprises, accounting for 80 per cent of economic activity.

"Almost everything you touch in this country is government-owned," says one businessman. There are no sacred cows, although the minister responsible for privatisation, Mr Ronald Penza, attracted considerable flak, especially from the unions, when he announced that government would not retain a majority stake in either the copper mines or the public utilities.

This stance may have to be revised since it might be impossible to sell the railways or Zesco, the Zambia Electricity Supply Co. Should it prove impossible to find buyers, on satisfactory terms, the Zambia Privatisation Agency, set up in August, will have to fall back on commercialisation. But its remit is clear: to get the government out of business and its board and officials are determined to do that.

Nineteen small parastatals are currently under the hammer – with a combined turnover of K1.8bn – with competitive bids for 17 enterprises opened this month while the ZPA is negotiating the sale of the other two with minority shareholders.

The initial 17 have a combined turnover of K1.8bn, although three are dormant and one, Prime Mobile Products, is in the development stage. They include a dry cleaning business, a travel agency, vehicle spares and tyre firms and manufacturers of hardware, tin cans, plastics and pharmaceuticals.

ZPA officials describe the response as "overwhelming". Over 180 tender packages were sold for the 15 companies about 15 per cent of them to foreign-owned firms. A total of 37 bids was received for the first six companies offered, including bids from Botswana, South Africa and a Swiss-French firm. In all six cases, management and employees submitted bids to buy-out the firms.

While some would have preferred a bolder strategy, ZPA officials say the decision to launch the programme with small, easily saleable enterprises was not a "soft option" strategy. "We wanted to demonstrate beyond any possible doubt that we really are serious about privatisation," says one official.

This is in marked contrast to the previous administration's on-off approach. In any event, it was necessary to push ahead with relatively simple sales in order to satisfy donor pressure and comply with World Bank conditions.

The July 1992 legislation to set up an independent privatisation agency to implement the programme – replacing the Technical Committee on Privatisation created by the Kaunda administration – has shifted it out of the political arena and into the hands of the technocrats. The agency will need to refer major policy issues – such as the timing and method of privatising ZCCM – to the cabinet, but operationally it is on its own.

The government wants to see ownership spread among ordinary Zambians through public share issues and employment share ownership schemes

The parastatals will be sold as they stand. The government has no intention of investing in any restructuring programme arguing instead that this should be left to the new owners. This is a sensible counter to "selling the family silver" critics, since buyers will be forced to inject new capital into the enterprises to turn them around.

A number of grey areas are still to be resolved such as whether and how the government will retain control over strategic enterprises, such as the oil refineries. This could be done on a "golden share" basis or by retaining enough equity to guarantee effective control.

One thing is clear. The government wants to see ownership spread among ordinary Zambians through public share issues and employment share ownership schemes. Although no stock exchange is in place yet, the ZPA is determined to float at least one of the 32 firms scheduled during 1993.

The prime candidate is almost certainly Zambia Breweries, in which Anglo American is the largest private sector shareholder, although others, such as Zambia Sugar Refineries, Chilanga Cement and the milling companies, could also qualify.

Under the new banking act, the banks will able to operate as stockbrokers, trading shares for their customers.

But commitment is not everything. The ZPA, whose top managers have been in place less than two months, is short of skilled personnel.

It will not find it easy to market some 50 companies within the next year, especially since Zambia has no domestic capital market while bank liquidity is under pressure as part of the anti-inflation programme. A worry is whether enough buyers will materialise to keep privatisation on track.

"It will be interesting to see how the 37 who submitted their bids plan to finance the takeovers," says a banker, warning that "they don't qualify as bankable prospects".

Lurking in the background are familiar political worries. Drought, recession and the restructuring of the economy has led to large scale retrenchment in a country in which only 360,000 people are employed in the formal economy.

The parastatal sector employs 85,000 of these and as many as 40 per cent could lose their jobs once the new owners take control. This has the hallmark of political dynamite which is why a the ZPA will next year be marketing not just the companies but also the concept of privatisation.

Tony Hawkins

A four-pronged strategy is relieving the burden of $7bn of debt

Donor assistance essential

WITH an external debt at the end of 1991 in excess of $7bn, Zambia is one of Africa's most debt-stressed economies. It has more debt per head of population than any other country in the region.

It has since qualified for what are called "enhanced Toronto" debt-relief terms, offering a menu of options to creditors, including 50 per cent debt forgiveness.

But Zambia's position is unique to the extent that not only does debt owed to the multilaterals – the IMF, the World Bank and the African Development Bank – (which technically cannot be rescheduled) make up 44 per cent of long-term obligations, but it is also in arrears to the IMF to the tune of $1.2bn. This makes it the IMF's second-largest arrears debtor after Sudan.

Balance of payments 1991-93 ($m)

	1991	1992	1993
Exports	1,082	1,050	1,000
Copper exports	895	750	710
Imports	950	1,080	1,070
Trade balance	132	-30	-70
Net invisibles	-548	-535	-490
Transfers	480	230	220
Current account	64	-335	-340
Net capital	-259	-275	-340
Overall balance	-230	-610	-680

Source: IMF

The debt burden is less intimidating than the numbers (including a 65 per cent debt-service ratio in 1992) imply. Zambia has – technically – rescheduled the $1.2bn it owes the Fund through a Rights Accumulation Programme whereby, as long as it meets IMF benchmarks, it accumulates "rights" of SDR83.7m ($114.5m) a quarter, which go towards paying off the arrears.

By March 1995 Zambia should have accumulated sufficient rights to clear its IMF arrears thereby regaining access to Fund facilities. Once the arrears are paid off, Zambia will become eligible for the highly concessional Enhanced Structural Adjustment Facility giving it up to 10 years to repay fresh IMF borrowings.

This is just one strand of a four-pronged external debt strategy. The others include the July 1992 agreement with the Paris Club of official creditors at which Lusaka obtained $927m of debt relief. Some $585m of this took the form of "enhanced concessions" while the balance of $343m was "extra-ordinary relief", by which is meant a deferment of payments. Seven donor countries, including the UK, US and Germany, have so far agreed to write off all, or some, of their development loans.

A third element is a proposed private and commercial debt buyback, although this scheme is still in its infancy. The World Bank is offering $20m and Zambia hopes to attract support from other donors giving it a cash chest of $100m to buyback the $120m owed to the commercial banks and other private debt.

The fourth leg of the strategy – new donor disbursements for project financing – has proved disappointing. These are estimated at $200m in 1992, lower than in 1991 and well short of expectations. The problem is the failure of line ministries to put together the bankable projects that donors can support.

Before rescheduling, Zambia's 1992 debt-service bill was estimated at $835m of which $268m was owed to the multilaterals, more than half of it to the Fund and almost $500m to bilateral donors. Its "enhanced Toronto" terms have reduced its Paris Club debt-service from more than $450m to $45m this year and $55m in 1993.

Next year, Zambia is hoping for donor assistance of $1.4bn of which $400m will take the form of debt relief, while the balance will be $500m in balance of payments support, $200m in commodity aid and $300m in project finance.

Without donor assistance, the balance of payments would be unmanageable with an overall payments deficit averaging almost $850m in 1992/3. This is largely a product of the debt situation, with pre-rescheduling interest payments of over $300m in 1993 and capital repayments of a further $365m.

Substantial donor help is crucial – to ease the debt burden and help build a platform for the growth of non-traditional exports in the mid-1990s, without which Zambia will remain at the mercy of the fortunes of the copper industry.

Tony Hawkins

Better days: the maize crop, the country's staple food, has been devastated and many farmers are fighting for survival

Severe drought and radical reforms have transformed the sector

Turning point for farming

IT HAS been the year of the drought in Zambia. But it has also been a year which has seen the most fundamental agricultural reforms since independence. Provided government implements the overall economic reform programme, farmers may well look back on 1992 as a turning point in agriculture's fortunes.

Given normal weather, says Mr Guy Scott, the energetic minister of agriculture, 1993 could be the year when Zambia started to realise the potential of what Mr Scott, a former farmer, describes as the country's most valuable resource – 9m hectares of good arable land, of which only a fifth is utilised.

The impact of the region's worst drought in living memory makes conventional assessment of Zambia's agricultural sector almost impossible, the minister acknowledges. But the statistics of a disaster which has brought about a 10 per cent fall in GDP this year are ready to hand. The country's staple food – the maize crop – has been devastated and many farmers are fighting for survival.

Yet Zambia has emerged remarkably well from what could have become a catastrophe, Mr Scott points out. The government and non-governmental organisations (NGOs) *have joined forces to run a* widely acclaimed relief operation which may provide lessons for the rest of Africa.

Rains for the 1991-2 season were 60 per cent below normal, and the marketable surplus of maize normally around 1.2m tons, fell to 250,000 tons. At the end of February the government declared a national disaster and set in train efforts to find and distribute 950,000 tons of feed grains.

By May 245,000 tons of maize had been bought by government from its own resources. Donor assistance in cash and kind ensured that the food supply target was met.

However, ensuring the food reaches those in greatest need and that food aid is not manipulated by government and politicians for profit or patronage proved more difficult.

The Zambian solution was "to remove the temptation and to cut the red tape", as one official put it. An NGO was created with government's blessing to help handle the disaster. Overseeing the exercise is the Programme to Prevent Malnutrition – a committee chaired by the minister of health and including representatives of the ministries of agriculture, finance, water affairs and community development.

Working with government officials are representatives of the World Food Programme, Unicef and a wide range of NGOs, churches and community organisations.

But crucial to the success of the relief operation has been an NGO created for the programme, the Programme against *Malnutrition, whose staff* backs up the aid organisations, reports on the use of donated food to the World Food Programme and accounts for aid funds to the ministry of finance and donors.

Committees covering the drought-affected areas include community leaders drawn from churches, hospitals and schools. The PPM provides money to NGOs to subsidise transport costs of taking food to remote areas. Families unable to pay for maize participate in food-for-work schemes, *ranging from mending rural* roads to repairing schools desk. The old and the sick receive free food.

It is, say donors, one of Africa's most efficient food relief projects. But equally important, says Mr Scott, are the radical changes being made in agricultural policy.

According to a recent editorial in Productive Farming, the journal of the National Farmers' Union, since independence "one of the main obstacles to farming progress was the gross inefficiency of the state marketing system. It was illegal to sell maize and other scheduled crops except to authorised government bodies".

It goes on: "Bureaucracy, inefficiency, theft, painfully slow handling of crops, wasteful distribution and storage, *failure to provide farming* inputs, long delays between crop delivery and payment, all contributed to a dismal performance, costly to the tax payer and infuriating to the farmer".

To the delight of farmers – including some 400 white farmers – the government has drastically reduced state intervention since taking office. Subsidies on maize meal have been eliminated and producer prices have risen. Market forces will determine the price for the coming season. Should it prove necessary to import maize, government has undertaken not to sell it below $14 per 90kg bag.

Marketing of fertiliser has *also been decontrolled. Subsidies have ended*, as has the state monopoly on fertiliser imports. Although the Nitrogen Chemicals of Zambia is likely to stay the market leader, it has lost its monopoly.

But the success of reforms will depend on how government handles credit facilities for cash-strapped farmers.

All financing for 1993 domestic maize purchases will be handled by private sector. But tight credit restrictions and high interest rates, make government intervention likely, says Mr John Hudson, editor of Productive Farming. Mr Scott acknowledges that credit facilities for agriculture will be a crucial issue in the months to come. But he knows it will be no easy task to strike the right balance between helping the *farmers and persisting with* tough economic reforms.

Michael Holman

While investments are as yet only intentions, figures look good

Foreign interest mounts

A NEW investment code and a new government is doing wonders for Zambia's foreign investment performance. The country's one-stop investment centre, set up little more than a year ago when the *1991* Investment Act became law, approved more than 440 projects worth $650m in the first nine months of 1992.

The new investment act targets five main areas – agriculture, non-traditional exports, import substitution, tourism and "rural projects".

The value of investment figures look extremely high, but officials are quick to point out that this represents intentions rather than "investment on the ground", and that approved projects might never be implemented.

Furthermore, the numbers relate both to domestic and foreign investment. A more conservative figure is that for investment licences actually issued, which lag behind projects approved. But even here the figures are impressive – 300 licences issued during the first 10 months of 1992 for projects valued at $300m.

Figures for the first half of the year, in which 130 licences were issued, show foreign exchange "pledges", as one investment centre official calls them, of $128m or 95 per cent of the total value of licences, implying that the domestic component is only small.

Investments in these five categories, including expansion projects by existing firms, qualify for a range of investment incentives, including a three-year tax holiday (followed by two years of 75 per cent tax exemption), a seven-year tax-holiday on dividends and selective employment tax, exemption from import and sales taxes and generous export retention allowances.

The investment code also *provides guarantees against* expropriation and allows investors to remit up to 75 per cent of after-tax profits, along with the principal and interest on foreign loans, management fees and royalties and the proceeds of asset sales.

The Investment Centre chairman, Mr Evans Chibiliti, makes no secret of the fact that his organisation has some way to go before he will be satisfied that it is fully effective.

No structures were in place, he says, until early this year, and initially a backlog of project approvals built up, although this has now been cleared to the point where the centre is able to respond within 30 days of an application being received, as stipulated in the act.

Investors are not required to submit projects through the centre, nor does it claim to be a fully one-stop operation. Even after acquiring his licence, the investor still has to do the rounds of the Ministry of Lands, the Bank of Zambia and the immigration authorities.

The bulk of the inquiries come from medium and small-scale operators and not the big multinationals. South Africa has shown considerable interest, although much of it through the note-book rather than the cheque-book.

White farmers from Zimbabwe have been taking a look at maize, tobacco and horticultural projects, while many existing Zambian firms are expanding and refurbishing manufacturing operations.

Critics say existing investors are unhappy at an incentive package favouring the newcomers, arguing that Zambia would do better to cut its corporate tax, provide guarantees of remittability and abandon the idea of targeted tax holidays and other incentives.

Centre officials reject this "level playing field" argument on the grounds that changes to an investment code, launched less than 18 months ago, would send the wrong signals. "What investors want is policy consistency," says Mr Chibiliti, although he favours broadening the range of priority sectors to include healthcare, education and finance.

In spite of this, the government will come forward with important changes to the code in the budget next month, with businessmen hoping for a lower rate of company tax and more generous remittability conditions, rather than targeted incentives.

Tony Hawkins

PROFILE: DUNLOP

Tackling new competitors

MR BOB MAY, managing director of Dunlop Zambia is the kind of industrialist Zambia needs. A blunt, straight-talking Scot, his task is to bring Dunlop's Ndola tyre factory up to speed to face the new competition from direct imports sourced in South Africa and the Far East.

His approach is a refreshing blend of optimism, hard-headed realism and entrepreneurial flair. He has to convince his London shareholder, BTR, with its reputation for running a tight ship, that Zambia is a country worthy of a $7m investment in the modernisation of the tyre factory, giving foreign competitors a run for their money while convincing BTR an acceptable hard-currency will be earned, remittable return on its investment.

In a country with three-digit inflation and a tumbling exchange rate this is no easy task. Dunlop is able to beat the imported competition partly because it can undercut suppliers burdened with the amalgam of transport costs, devaluation, import duties and massive importer margins.

But earning an adequate hard-currency return when the exchange rate has fallen is a formidable task, the more so since "existing" investors, of which Dunlop is one, may remit only 15 per cent of their paid-up capital or half after-tax profits, whichever is the lesser.

Dunlop plans a modest investment – $7m over four years – in modernising its plant, drawing on technology from Dunlop International Technology in Birmingham. By mid-1993, Dunlop Zambia will introduce a new generation of tyres, capable of double the mileage of existing products.

The Dunlop story is a familiar one for those with experience of structural adjustment elsewhere in Africa. After 15 years or more of a de facto monopoly, Dunlop is now faced with competition from half a dozen direct importers.

An industry where marketing used to mean rationing supplies to desperate buyers has changed beyond all recognition. "We have to change the marketing mindset," says Mr May, who is sending his sales staff to work with Dunlop Nigeria to learn how to market in a competitive environment.

Skills are a problem. The expatriate count is down to six from 17 in 1985. "We would like to get it down to three," says Mr May because expatriate staff are "savagely expensive". One way out is networking within the region, sharing skills with the larger, more modern factory at Bulawayo in neighbouring Zimbabwe.

If Dunlop's three main investor groups – BTR has a controlling 57 per cent stake, the government 26 per cent and Anglo American Corporation 16 per cent – agree, the modernisation project will go ahead and qualify for the new investment incentives introduced towards the end of 1991.

Mr May is optimistic about Zambia's industrial potential arguing that existing firms alone have the scope to expand operations by 30 per cent to 40 per cent although this will have to await the strong farm-led economic recovery forecast for 1993.

Tony Hawkins

ADVERTISEMENT

STATEMENT BY THE PRESIDENT OF THE REPUBLIC OF ZAMBIA MR FREDERICK J T CHILUBA

Zambia at its inception of nationhood in 1964 was a country with a lot of promises, enjoying one of the highest per capita incomes in Sub-Saharan Africa. Zambia had a respectable level of external reserves. These reserves were useful in furnishing the country with an ability to build infrastructure.

In the formative days of our independence, commendable efforts were made to expand educational facilities, health services, the country's network of tarmac roads and not least, the energy capacity of the country. Zambia's export of electricity to Zimbabwe of around 500MW was more than four times the installed capacity (120MW) of the neighbouring country of Malawi. Today, Zambia is reclassified as one of the least developed countries because her per capita income has fallen below five hundred United States Dollars. Stagnation of the Zambian economy is essentially attributable to bad governance.

At the time of independence when our population was just under three million, there were 350,000 people employed in the formal sector. In the three decades of our independence, formal sector employment has remained at that figure but then our population (current estimate 8.6 million) has almost trebled. The country still has a rather unhealthy dependence on copper for its foreign exchange requirements. The price of copper which still accounts for 90 per cent of the country's foreign exchange earnings has fluctuated over the years and given the adversity of terms of trade that bedevil all commodity producers in the developing world, our capacity to service imports of capital goods has correspondingly reduced.

The Zambian economy started to decelerate towards the late Sixties when the then Government embarked on the process of wholesale nationalisation of companies. The command economy that was instituted at that time had an immediate adverse impact on the economy. Companies which all along had been solvent under the private sector management, became loss makers. The managers of these companies were chosen more for their political connections than their managerial abilities. Being logical extensions of the Central Government bureaucratic system, state-owned companies were characterised by over-employment and indifference. Accountability was either totally absent or very diffused. The inefficiency of these companies impacted on the whole economy in many respects.

Firstly, the subsidies extended to these companies tended to accentuate the government's budgetary deficits. The low levels of capital formation meant low or no investment in a sector of the economy which accounted for a very substantial portion of the national economy. Thus the logical consequence of no growth in employment. The effects of a command economy which believed in the efficacy of state intervention were inter alia, pervasive price controls austensibly to protect the consumers but which at the end of the day caused ghastly shortages and black market situations which took a toll on the meagre incomes of the most disadvantaged social classes. State involvement in the economy tended to strike at the very core of any society's development which is individual initiative and creativity.

My MMD government inherited a shattered economy with totally depleted coffers. We set out immediately to correct the deformities but naturally it will take some time for the results to show because even the best policies take quite a while to show results, if only, because of the time lag effects. Our country men and women and also those of our friends from overseas who are objective do acknowledge that the new government has at least created a hope for the future by enacting an enabling environment which permits people to perform to the best of their ability and allows for security on one's investment because we have Acts on the Statute which preclude expropriation.

For overseas investors, we have set up an Investment Centre where people can go and seek information and practical assistance in establishing in Zambia. We have also taken steps to restructure a series of economic policies. Except for maize, the staple diet for the Zambian people, we have abolished all forms of price control and it is hoped that the price of maize will also be restored to the market forces in the course of 1993. The new government has extended liberalisation measures to the foreign exchange arena. The Minister of Finance in his 1992 Budget last January, allowed all exporters of non-traditional products a hundred per cent retention of their export earnings. A month ago, Foreign Exchange Bureaux were opened and people can purchase amounts up to two thousand dollars for travel purposes by merely producing their passports.

I am the first to admit that the economy still has intractable problems to grapple with. However, given the resolve of our people to overcome these problems, a good policy frame that encourages instead of constraining initiative and the impressive support that my government has had from international donor community both bilateral and lateral, we should be able to overcome the structural deformities that we have inherited from the one-party dictatorship.

Zambia is a country richly endowed by God in terms of good climate and favourable soil conditions. Zambian people are perhaps the biggest asset especially in their wisdom to handle diversity so maturely, which is why there was a uniquely smooth transition from one party dictatorship to multi-party democracy. We can solemnly undertake that those investors who come to our country will not have cause to be disappointed apart from the normal risks of business and gestation of investment.

STATEMENT BY HON. R.D.S. PENZA MINISTER OF COMMERCE, TRADE AND INDUSTRY

On the 31st of October, 1991 Zambia took its place in the international community of democratic nations. With political democratisation came high hopes and expectations from our people that the new Government would arrest the decline in their standard of living and restore the dignity of a once proud and vibrant nation. This requires however the whole transformation of the economy and will come neither easily or quickly.

In order to achieve this economic transformation the Government has had to redefine its role in economic development. The role of the new Government is to ensure that an enabling environment is created in which personal initiative, guided by market incentives, can be harnessed to create wealth, encourage investment and promote sustainable economic growth; as well as the development of an economic and social infrastructure base which supports private sector growth.

This marks a fundamental change from the policies of the previous regime which had emphasised the strong role of the state sector in the productive operations of the economy.

A new positive economic policy which focuses on individual initiative and the development of the private sector has therefore been put in place. Our Economic Recovery Programme, as epitomised in the economic and financial policy framework paper 1992-1994, places emphasis on the diversification of the economy away from its dependence on copper revenues and encouraging and expanding the non traditional sector through private sector development as the engine of economic growth. Key in this process is the privatisation programme which aims to reverse the dominant role of the state in the productive base of the economy by reversing state ownership form 80% of the economy to not more than 20% within a period of five years.

The strategy to achieve economic diversification has involved trade policy and market reform as well as the promotion of both foreign and domestic investment in non traditional exports and in additional mining activity. The mining sector quite clearly will continue to be the main source of the country's foreign exchange earnings for some to come. The privatisation programme is the vehicle through which the private sector will be expanded, investment flows in the economy tapped and a competitive business environment fostered.

TRADE POLICY AND MARKET REFORM

During the course of 1992 the Government has liberalised trade policies, moved towards a flexible foreign exchange regime, decontrolled prices and interest rates, made a significant reduction in maize meal subsidies and continued the deregulation and debureaucratization of Government procedures.

In terms of liberalisation of trade policies, procedures for obtaining import and export licenses have been greatly simplified and at the same time a programme has been instituted to reform the tariff and duty system. During the course of the year the changeover to a small negative list of Open General Licence (OGL) imports was introduced, reflecting a further liberalisation of the import regime. The negative list now covers less than 5% of Zambia's import volume.

In moving towards a flexible foreign exchange regime the Government at the beginning of the year introduced the retention of 100% of foreign exchange earnings by non traditional exporters (i.e non copper, cobalt, zinc or lead exporters). These exporters could sell their foreign exchange at a premium on the retention market. Subsequently the Government has relaxed controls on both the supply and demand side of the retention market, adopted a common negative list for the retention and OGL markets, and introduced a relatively liberal bureaux de change system.

The value of the kwacha has now been brought in line with the market and the final step necessary to free current external account transactions completely from Government intervention is to unify the OGL and bureau rates and markets.

INVESTMENT PROMOTION

There are four components to the Government's investment promotion strategy: firstly, the provision of a stable macro-economic environment based on a liberalised market structure; secondly, the rehabilitation of social and economic infrastructure; thirdly, the establishment of a simple transparent and efficient investment policy framework which includes the reorganisation of the institutional set up for small scale business and export promotion.

The fourth component of the strategy is in fact the privatisation programme through which the Government seek to access much needed investment in new technology capital and skills into domestic industry. The focus of investment will be in agriculture, tourism, manufacturing and mining sectors with emphasis on export promotion.

The control of inflation is a priority if macro-economic stability is to be achieved,and a key factor will be the ability of the Government to control its budget deficit. The performance of the Government in this respect must be viewed within the context of Zambia having suffered a drought of unprecedented severity that has had a devastating impact on the production of the staple food crop, maize, and has seriously affected other areas of the economy.

Whilst the level of inflation is still above 100%, the Government's non-drought budget deficit is expected to fall to 2.4% of GDP as opposed to 7% in 1991. The Government has begun to rehabilitate infrastructure such as the roads, schools, and hospitals with the assistance of the donor community. The process of establishing an investment policy framework is also underway, with the establishment of an Investment Centre.

The Government aims to streamline the incentives structure for investors, remove bias against existing investors and enable the Investment Centre to focus on assisting investors in obtaining information, acquiring land and work permits and in securing the supply of water, power, transportation and communications on a priority basis as well as promote investment. The review of the institutional set up for small scale business and export promotion has also commenced.

THE PRIVATISATION PROGRAMME

The development of the private sector is the cornerstone of the government's Structural Adjustment Programme (SAP). The vehicle for private sector development is the privatisation programme through which we will return the initiative in commerce, trade and industry back into the hands of the private sector.

The legal mandate for the privatisation programme was established with the enactment of the Privatisation Act in July 1992. The Act establishes the Zambia Privatisation Agency (ZPA) which is responsible for the implementation of the privatisation programme. Some 15 State Owned Enterprises (SOE's) are to be privatised representing the Government's interests in all sectors of the economy from the copper mines to bakeries.

The divestiture of state owned enterprises will be sequenced and the first tranche of nineteen companies will be divested by the first quarter of 1993 by trade sale and negotiated bid. The second tranche of companies comprises some thirty two larger and more significant SOE's which are to be divested during 1993. These will be divested by several of the different methods set out in the privatisation act.

Those companies with minority shareholders who have pre-emptive rights will be offered the right of first refusal or the privatisation will be done through additional investment which will results in the dilution of Government's investment. A percentage of one of the second tranche companies will be offered for public participation by mid 1993.

The Government has also expressed its commitment to the privatisation of the Zambia Consolidated Copper Mines (ZCCM). The privatisation process will commence with a strategy study to be concluded by the first quarter of 1993. The complex nature of ZCCM and its importance to the Zambian economy requires that the method of privatisation is carefully defined and the Government sanctions the stages of divestiture.

The MMD Government welcomes foreign investment and foreign investors are free to invest in any sector of the economy. There are no areas reserved for "national interest" and with the privatisation programme, there are no sacred lambs.

Ronald D. S. Penza 2. 12. 92

ZAMBIA'S NEW ECONOMIC RECOVERY PROGRAMME
STATEMENT BY HON E G KASONDE, MINISTER OF FINANCE

For a long time, the performance of the Zambian economy has been quite unsatisfactory. The growth rate of the country's real Gross Domestic Product (GDP) has declined persistently from a positive rate of 2.7 per cent in 1987 to a negative rate of almost 2 per cent in 1991. With the population growing at an average rate of 3.2 per cent per year, the nation's per capita income has declined considerably over the period.

The stagnation tendencies in the economy have been attributed in part, to the long-term deterioration in the country's terms of trade emanating from the unsatisfactory developments in the external environment and to the slippage in the implementation of the economic reform programmes by the former regime. The heavy reliance on a single primary commodity (copper) for export earnings on one hand and on imported inputs for the productive sectors of the economy on the other, made the country susceptible to deteriorating copper prices and rising prices of essential imports. In addition, the economy became crippled by the increasing external debt burden that swelled beyond the country's ability to service.

Rather than take steps to halt the decline by diversifying production through market-oriented investment and pricing structures, the previous regime designed policies that were geared more towards maintaining consumption in anticipation of an eventual up-turn in the copper prices. However, as low copper prices persisted, large and unsustainable internal and external imbalances emerged. Meanwhile, very important social and economic infrastructures suffered gross neglect.

The effective use of existing productive capacity had also become hampered by extensive government involvement in the form of price controls and a large parastatal sector that constituted about 80 per cent of the national economy while the rest comprised mainly of banking, peasant agriculture and the informal sector.

With the coming into power of the Movement for Multi-Party Democracy (MMD) Government last November, Zambia has been set on a new economic course. The new Government has embarked on an economic recovery programme which has involved the implementation of a wide range of stabilization and structural adjustment measures. During the first year in office the new Government's efforts have been concentrated in mainly three areas, namely, the re-organisation of fiscal and monetary policies; restoration of the dynamic role of the private sector; the improvement of institutional frame work for economic policy making; and seeking external support for the Structural Adjustment Programme.

Re-organisation of Fiscal and Monetary Policies

Since macro-economic stabilization requires that inflationary tendencies are controlled, it was decided to quickly institute fiscal and monetary discipline in the economy. Substantial progress has been made in the fiscal area to bring down the public sector deficit. Through such measures as Civil Service retrenchment, elimination of food subsidies and general rationalisation of Government spending, the deficit has been brought down from 7.5 per cent of GDP in 1991 to an estimated 2.5 per cent of GDP in 1992. The emergence of drought has, however, complicated the process of deficit reduction. The deficit on the drought budget is estimated to reach 1.5 per cent of GDP by the end of 1992.

On the monetary front, efforts have been made to limit the growth of money supply to a set target of 35 per cent for 1992. Interest rates were adjusted upwards in line with inflation. However, in the course of the year, various factors combined to make the monetary target unattainable.

Nonetheless, in spite of the difficulties experienced in the implementation of fiscal and monetary measures, inflation was brought down from the level of the 400 per cent (year-on) at the beginning of 1992 to around 200 per cent towards the end of the year. Inflation is however, still too high. The government believes that unless inflation is reduced significantly, the prospects for resumed growth will remain poor. Concerted efforts will be made during 1993 to clear abnormal inflation from the Zambian economy.

Restoration of the Dynamic Role of the Private Sector

The reform agenda of the MMD Government has extended well beyond the issues of stabilization and prudent economic management regarding private sector activity as the main engine for growth. This has been considered the best approach for developing new ventures, creating employment, and infusing new technologies and skills into the economy to stimulate production and growth. A programme of action has been developed for the implementation of the privatisation policy. Parliament has passed the Privatisation Act of 1992. The Privatisation Agency as well as the Investment Centre have also been established. Further, the first tranche of seventeen (17) companies has been offered for sale.

The Government sector will remain important in providing a supportive environment for economic expansion, particularly in the areas of infrastructure and economic policy development. Government has already acted to decontrol the foreign exchange markets and has proceeded in this regard at a pace well beyond what was originally perceived.

From the introduction of the 100 per cent retention of foreign exchange earnings for non-traditional exporters, to the relaxation of controls on both the supply and demand side of the retention market, to the adoption of a common negative list for the retention and Ordinary General Licence (OGL) System, and culminating in the introduction of a relatively liberal bureau de change system.

The Government has moved rapidly to allow the foreign exchange markets to function like any other markets, with minimal Government involvement. At the same time, the exchange rate has been allowed to crawl to let the Kwacha freely find its value against other currencies in accordance with the forces of demand and supply for foreign currencies. The Government has further decided to unify the exchange rates into one to be freely determined in the market place. Interest rates have also been liberalised. With effect from September, 1992, commercial banks became free to set their own deposit and lending rates. The Bank of Zambia had only remained in control of the bank rate which had initially remained at 49 per cent.

Improvement of Institutional Framework for Economic Policy Making

The Government recognises the fact that for the macro-economic objectives of reform to be realised the institutions of economic management have to be greatly strengthened. Thus, in the area of public administration the Government has already acted by adjusting the institutional machinery for economic policy making. It has abolished the National Economic Monitoring Committee (NEMC) and instead has established the Inter-Ministerial Economic Monitoring Committee under the Chairmanship of the Minister of Finance. Members include Ministers of Commerce, Trade and Industry; Planning and Development Co-operation, Office of the President and the Governor of the Bank of Zambia.

The Committee reviews progress with the implementation of policy measures which are included in the Policy Framework Paper, for Zambia. At the National Commission for Development Planning, a new Public Investment Co-ordination and Monitoring Unit is being established. This Unit will ensure that Zambia's Public Investment Programme which will reflect the Government's overall policy priorities is implemented and closely monitored.

Seeking External Support for the Programme

Faced with the formidable challenges, Zambia will require a great deal of outside help if she has to accomplish the required transformation of the economy and restore sustained growth. In this regard, Zambia has continued to take a collaborative approach in addressing her development needs, particularly in resolving her critical external debt problem. The external debt situation has remained critical and has continued to be a major impediment to the growth of the economy.

As a matter of commitment Zambia has entered into close co-operation with the International Monetary Fund and the World Bank group as well as the rest of the donor community. A firm support has been received from the international community. In 1992, assistance has been received in form of balance of payments support as well as project and commodity aid. Not less than fifteen major donors – both bilateral and multi-lateral, have been involved.

In particular, the donor community had responded remarkably quickly and generously to the country's appeals for assistance in dealing with the drought situation during the year. The relief efforts to augment the delivery of the much needed food and medical items were well co-ordinated. This is greatly appreciated.

On foreign investment, it is recognised that private direct investment would make a unique contribution to the development of Zambia. Apart from facilitating the transfer of technology and managerial capacity, it could assist in accelerating the process of privatisation and market development. An enabling environment is being created to attract foreign investors. The structural adjustment programme being implemented is aimed at restoring market mechanisms and stabilizing macro-economic parameters including inflation, interest and exchange rates to allow for proper decision-making by investors.

Thus, all investors are welcome into Zambia to choose areas of their interest, negotiate and enter into partnership with other businessmen. Foreign Investors are allowed to establish 100 per cent privately owned enterprises or go into joint ventures either with local or fellow foreign investors in any proportion.

In conclusion, it can be stated that, the progress made so far with the implementation of the various aspects of the New Economic Recovery Programme has been substantial in the first year into office of the MMD Government. Although not all targets of the programme have been achieved in the first year, the new Government remains fully committed to the execution of the recovery programme. A revised Policy Framework Paper will be presented and negotiated with the IMF and the World Bank in early 1993. A revised Public Investment Programme will also be presented.

While its minister is optimistic for the future, tourism lacks lustre

A secret too well kept

WITH attractions that range from the sandy beaches of Lake Tanganyika to the Luangwa game parks, the Victoria Falls, Lake Kariba and *the magnificent Zambezi River*, tourism in Zambia should be booming.

In fact, the potential has barely been tapped. Private sector initiative was stifled during the Kaunda era, state-run hotels were inefficient, the infrastucture deteriorated as the economy declined and many would-be visitors were put off by the wars in the region. Meanwhile poaching flourished, often with the assistance of senior government officials.

Overcoming this legacy will be a demanding task. The sector needs substantial investment at a time when govern*ment resources are scarce. The* expansion of hotel capacity and allocation of new hunting concessions and sites for new game lodges needs careful planning. The expected growth in the numbers of private safari operators needs supervision.

So far, there is little evidence that the country's tourist authorities have come to grips with the challenge. One press*ing problem is that of Zambia* Airways, the unreliable state-owned airline now facing privatisation, which is a heavily subsidised national liability.

Nor does the National Tourist Board inspire confidence: its drab office off Lusaka's Cairo Road, display windows bare but for fading posters, offers a useful glossy brochure but no more.

Visitors are directed to travel *agents, many of whom seem* better informed about holiday packages in London than expeditions to the Luangwa Valley, which offers some of the best game viewing in Africa.

The poor local presentation of what Zambia has to offer may not affect the visitor arriving on a package trip sold to them by their local agents but it is a striking contrast with the energetic way in which Kenya, Zimbabwe and South Africa are competing in the tourist market.

Since the Victoria Falls, Kariba and the Zambezi river are shared with Zimbabwe, the competition is especially *tough*.

But if optimism is the main ingredient of a successful revamp of the sector, Mr Christian Tembo, the former army general who holds the tourism portfolio, is the man for the job.

Visitors will double by the end of 1995 to from current levels to just under 400,000, forecasts Mr Tembo, and foreign exchange earnings will top $115m.

The devaluation of the kwacha, Zambia's more favourable international image as a multi-party democracy, vigorous marketing abroad and lifting restrictions on South Afri*can passport holders will all* help to meet this target, says the minister.

Existing hotels operate well below capacity – the national average for room occupation is around 50 per cent.

Meanwhile Mr Tembo anticipates that both quality and capacity will rise: there have been over 80 applications from abroad (over half from South Africa) to take over and upgrade existing hotels or build new ones.

Incentives for investors are generous, notes the minister, and include a tax free period of up to seven years.

Zebras: Zambia's tourist potential has barely been tapped

Business travel guide

Few countries in Africa can match the warmth of Zambia's welcome to the visitor. But be prepared for frustrations – years of economic decline have taken a heavy toll: hotels need refurbishing, car hire fleets need replacing, taxis are on their last set of bald tyres, the telephone service can be erratic.

Lusaka is the capital and seat of government, but the industrial hub is the Copperbelt towns of Ndola and Kitwe. Zambia Airways has daily flights to the Copperbelt but many businessmen prefer a private operator, Roan Air.

For a short break from Lusaka, try Lilayi Lodge (Lusaka 228682/3), a cluster of thatched rondavels with swimming pool and situated at the heart of a private game reserve, 30 minutes' drive from Lusaka. An hour away is Lechwe Lodge (Lusaka 222083/4), on the banks of the Kafue River, set in 2,000 acres of private game ranch. Zintu, at the Ridgeway Hotel, has an excellent range of traditional and modern Zambian handicrafts and the Mpapa gallery art gallery is worth visiting.

Where to stay:

● Lusaka
Pamodzi:
tel: 227975; telex: 44720;
fax: 254005/250995
Intercontinental:
tel: 227911/15; telex 4144 Ridgeway/229222;

● Ndola
Mukuba Hotel:
tel: 655545/9; telex 30077;
fax 655729
Savoy Hotel:
tel: 611097; telex 30020

● Livingstone
Musi-Oa-Tunya
Intercontinental Hotel:
tel: 3201121/9

Visas:
Visas are issued on arrival at the airport. The fee is $9 and two passport photos are required.

Health:
Take malaria precautions; Aids is widespread.

Leaving:
There is an airport departure tax of $20.

Philip Gawith and Michael Holman

The success of deregulation depends on curbing borrowing

Fiscal restraint needed

"OUR main preoccupation" says Mr Dominic Mulaisho, the new governor of the Bank of Zambia "is to free the system". He has been as good as his word. The financial markets have been the target of sweeping reforms culminating in the unification of the official and free market exchange rates a fortnight ago.

Before Christmas too, the *Bank of Zambia* plans to launch a Treasury bill auction system – the final step in interest rate deregulation.

The previous administration was forced by the IMF and World Bank to accept financial sector reform in 1989 but after dipping its toe in the water, it beat a hasty retreat. The Kaunda government's final year in office (1991) was a monetary disaster, with money supply *increasing* 100 *per cent* and inflation running at 400 per cent.

As a result of this and the drought, the mid-1992 public sector wage awards, devaluation and increased export earnings, inflation has remained out of control. Money supply over 1992 is likely to double, while inflation is estimated at 120 per cent.

The central bank has done *everything possible to regain* control over the monetary aggregates, abandoning interest rate capping, retaining control over the Treasury bill rate – a key component – which is pegged at 54 per cent. It raised the statutory reserve and "inner reserve" ratios to about 67 per cent, which means banks are able to lend only K33 for every K100 of deposits.

The paradoxical result is a *market with money supply* growing at 100 per cent, primarily the result of government borrowing and export receipts, while a banking system strapped for cash is lending to prime customers at 70 to 75 per cent.

The explanation is simple. As fast as the government pumps liquidity into the system – in the year to August, government borrowing from the banks, including the Bank of Zambia, rose 300 per cent – the central bank is sterilising it with its high reserve ratios.

But sterilisation, especially of the "excess" earnings of the copper mines – earnings over and above the agreed price – was not effective in the third quarter and this, combined with the budget deficit pushed money supply growth above the IMF target ceilings.

Solving the problem will mean stopping government borrowing from the banks, which in turn means eliminating the budget deficit or fund*ing that deficit in a non-infla*tionary way by borrowing from the non-bank private sector.

The central bank's courageous reforms will work only if the 1993 budget bites the bullet of fiscal restraint, opening the door to reduced money supply growth and inflation and relative exchange rate stability.

The new auction system for Treasury bills means the authorities will replace control over the cost of government's short-term borrowings with control over the quantity of funds raised.

This is likely to mean a further rise in interest rates which are expected to become positive in real terms during 1993 as inflation falls. Money supply growth and inflation should average less than 50 per cent next year, while on a year-on-year basis they should fall below 20 per cent towards the end of 1993.

The foreign exchange market has been progressively liberalised with export retentions increased in March from 50 per cent to 100 per cent for "non-traditional exporters".

From the end of April, individuals were allowed to tap the more favourable rate in the retentions market to convert foreign currency into Kwacha.

The two big reforms came more recently. In mid-October, the bureau de change system opened allowing Zambians and foreigners to buy and sell foreign currency on a "no questions asked" basis. This system has largely replaced the parallel market, although some black market transactions continue. Its importance, according to Mr Mulaisho, is that Zambians themselves, not the government or central bank, now decide at what rate they wish to buy foreign exchange.

Two weeks ago, the official rate – at the time K247 to the dollar – was merged with the bureau and retentions market rate of K323. The government is now out of the exchange rate market although it retains influence on the supply of foreign exchange earned by the copper mines.

The merging of the two exchange rate markets will spawn another inflationary blip.

But if the ministry of finance *delivers the promised balanced* budget in January, government borrowing will fall, as will the rate of money supply growth and the yield on Treasury bills. As this happens the authorities will be able to reduce the banks' liquidity ratios enabling them to lend more to private enterprise.

The banks – while victims of some of these reforms and complaining that policy changes have been implemented too quickly – are delighted with the general thrust of government policy.

Their worries include having sufficient resources to finance the agriculture-led recovery which, weather permitting, Zambia hopes to achieve in 1993 as well as being able to provide medium and even longer-term funds in a country which has no capital market infrastructure.

This is a gaping hole which urgently needs to be tackled. There are plans to set up a Stock Exchange and some of the banks talk of launching equity funds or venture capital arms to finance private sector investment.

The success of monetarism, Zambian-style depends on conquering *inflation*, which will be a long haul, and on shifting the *focus* of banking activities away from funding the government to financing the movers and shakers in the private sector on whom the ultimate fate of the economic reform programme depends.

Tony Hawkins

KEY FACTS

Area	752,614 sq km
Population	8.15 million
Head of State	President Frederick Chiluba
Currency	Zambian Kwacha (K)
Average Exchange Rate	Dec 1990 $1=42.7
	Dec 1992 $1=315

ECONOMY

	1990	1991
Total GDP ($bn)	3.910	3.293
Real GDP growth (%)	-0.5	-1.8
Components of GDP (%)		
Private consumption	54.1	n.a.
Total investment	27.0	n.a.
Government consumption	19.7	n.a.
Exports	21.4	n.a.
Imports	-4.5	n.a.
Inflation (%)[1]	111.0	93.4
Copper output (000's tons)	422	396
Total external debt ($bn)	7.22	7.60
Debt service ratio (%)[2]	12.8	13.5
Reserves minus gold ($m)	193.1	184.6
Current account balance ($m)	-105	-448
Exports ($m)	1,350	1,125
Imports ($m)	1,298	950
Trade balance ($m)	52	175
Main trading partners (%)[3]	Exports	Imports
Australia	28.7	0.0
Industrial countries	63.4	41.7
Developing countries	36.6	58.0
Africa	5.0	47.0
EC	29.6	25.2

1 Annual average; 2 Total debt service as a percentage of exports; 3 Percentage share by value in 1991

Source: IMF, World Bank, Datastream, Economist Intelligence Unit

European Finance and Investment: **Switzerland**

In the end they said 'no', which points to a third year of recession

Outsiders with a purpose

Moves to restore international competitiveness will not be helped by a slow economy or the people's refusal to join the EEA, says Ian Rodger

AFTER A decade of relative decline, the Swiss financial centre appears finally to be on the mend.

In the past year, Swiss government, banks and quoted companies have burst into action, taking important forward-looking steps to restore and enhance the international competitiveness of Finanzplatz Schweiz.

Stamp duties have been removed from many transactions, a new companies law has encouraged companies to become more investor friendly, a plan to develop a single national electronic stock exchange has been fixed and toughened regulations to prevent money laundering have come into force.

Whether these and other moves are enough to bring back some of the billions of francs-worth of securities and money-market activities that have decamped to London and Luxembourg remains to be seen. But Swiss bankers are at least confident that they are at last stopping the rot.

"The Swiss financial centre is alive. It still accounts for 9 per cent of GDP and 135,000 jobs. And it is performing," says Mr Oskar Holenweger, chief executive of Bank Vontobel in Zurich.

That does not mean that the way ahead for Swiss banking and finance is trouble-free. The whole industry was shaken at the beginning of the year when Moody's downgraded Crédit Suisse's rating from triple-A, and did the same to Swiss Bank Corporation three months later.

The appeal of Swiss banks in international markets relates crucially to their reputation for sound management and capital strength, but Moody's decisions focused attention on some lax management as well as some possible negative effects of liberalisation in Swiss financial markets.

"Realistically, it is a price we had to pay for our lending mistakes", Mr Georges Blum, prospective chief executive of SBC, admits.

The process of recovery is not being helped either by the dreary state of the Swiss economy, likely to suffer a third year of recession in 1993 as a result of the rejection of the European Economic Area (EEA) treaty.

The pressure on many banks from the slump in property prices is unlikely to ease in the near future. Several have warned that their provisions arising from soured property loans, especially in western Switzerland, will remain high this year, and probably next year as well.

The refusal of the Swiss people to join the EEA will also make life tougher for Swiss bankers. In the past, some bankers, especially those in the very large private banking fraternity, might have argued that they would be better off remaining a haven outside European institutions. But no more. Swiss bankers know that their task of remaining competitive has become greater, because it will now be more difficult for them to attract highly qualified people to work in Switzerland.

Of equal concern is the damage caused this year by further scandal. In July, it emerged that a senior executive of Rothschild Bank, the Zurich affiliate of N.M.Rothschild of London, had made more than SFr220m (£99m) in unauthorised loans to a single group, breaking federal banking regulations. Swiss bankers wince at the mention of this affair, but point out that at least the Rothschild family covered the losses and no clients were hurt.

On the brighter side, the tough economic climate is accelerating the pace of much needed rationalisation. Consultants Arthur Andersen forecast, in a study published in November, that another 100 of the remaining 577 banks in the country could go in the next few years.

Much of the contraction so far has been among small regional banks, which specialise in mortgage and small business lending. Their number has plunged from 186 to 160 in the past two years, and is likely to continue to fall rapidly. The worry among Swiss bankers is that healthy banks will not be able to absorb the casualties as quickly as they emerge.

There have also been retreats by a few US banks from private banking and, more recently, by a few of the 40 Japanese banks and securities companies, because of the slump in Japanese Swiss franc bond issues.

A big question-mark hangs over Swiss Volksbank, now a distant fourth among the universal banks with assets of SFr48.3bn at the end of September. In October, it warned that cash flow could be off 10 per cent this year and loan loss provisions would be higher than last year's SFr394m. In a step that seemed to be clearing the way for a merger or a takeover, Volksbank said it would convert itself from a co-operative into a joint stock company next year.

It has been an eventful year for the Swiss capital markets as well. From early on, there was considerable excitement in the equity market about the implementation in July of company-law amendments that would enable companies to split their shares and simplify share structures.

Many took advantage of it to improve their overall transparency and to remove discriminative clauses against foreign shareholders. Analysts agree that these changes contributed substantially to the popularity of Swiss shares, especially among foreign investors.

During the first 11 months of the year, the Swiss Market Index rose nearly 15 per cent, making it one of the best performers in the world.

On the other hand, the opening of a lavish new stock exchange building in Zurich in July was cause for only muted celebration. This was because a far more important move – to create a national electronic exchange – had finally been agreed a few months earlier.

When it comes into operation at the end of 1994, the electronic exchange will concentrate the activity of the three remaining Swiss exchanges – Geneva, Basle and Zurich – in one screen-based market, thereby rendering the new Zurich trading floor obsolete. The hope is that the greater liquidity in the market will help Switzerland to compete with London for trading volume in Swiss shares. Analysts say that more than a fifth of all trading in Swiss shares is now done in London.

On the bond market, the most momentous trend of the year was the deterioration of Swiss public finances. According to Bank Julius Bär, the combined public sector deficit this year will rise to SFr8bn.

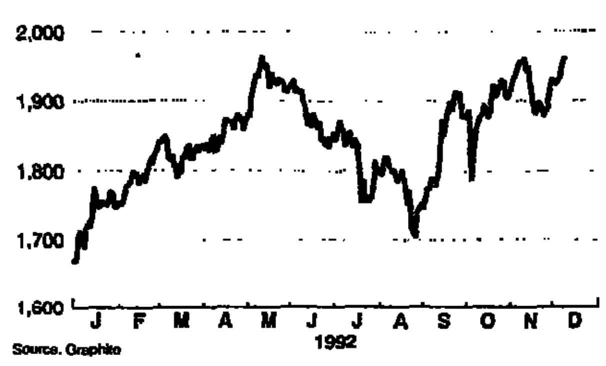
The result has been that the hitherto somnolent domestic bond market has come to life. A benchmark federal issue has been established for the first time, and a future on it has been one of the hits of the year on the Soffex futures and options exchange.

In the foreign sector, Switzerland's once flourishing junk-bond market collapsed, as issuers such as Heron, Mountleigh, Polly Peck and Bond Corporation came to grief. But there was little mourning for a market that did not seem to coincide with the Swiss image of quality. The big worry in the market now is what will happen next year when the peak of the redemptions of Japanese warrant bonds will occur.

Swiss bankers are, on balance, heartened by the progress they have made in the past year or so to improve the international attractiveness of their financial markets. They have no delusions about catching up with London, but they are confident that they can maintain their position as Europe's second truly international market. The key, as they see it, is to concentrate on their strengths, particularly international private banking where they remain far ahead of any competitor, and fund management in general.

They also know much can still be done to improve the attractiveness of their capital markets, such as clarifying the law on investment trusts, introducing a takeover code and making further tax reforms. And the country's decision to stay outside the European single market increases the urgency to get on with it.

Swiss Market Index



Source: Graphite

IN THIS SURVEY

Few easy answers for the smaller players

The economy

A flat year ahead

SWITZERLAND's economic performance this year is one of hopes unfulfilled. While there might have been some expectation that 1992 would see a recovery from recession that had produced a fall in GNP of 0.1 per cent last year, the economy has contracted by slightly more. Worse still, growth looks like being flat next year, too.

A combination of weak property prices and, for a time in the spring, short-term interest rates of around 9 per cent, has left both consumer and business confidence weak.

According to to Crédit Suisse, private consumption is likely to fall by some 0.1 per cent this year, but capital investment by industry and construction spending have been hit much harder. They are due to fall by 6.3 per cent and 7 per cent respectively.

Exports, and to a lesser extent public spending, provide the only bright spots.

Unemployment has risen to what, for modern-day Switzerland, is an unprecedented rate of some 3.9 per cent; and, thanks to the slowdown elsewhere in Europe, the chance of exports sustaining the economy into next year seem to be diminishing.

The persistence of the recession has prompted debate over economic management which transcends immediate reaction to this month's vote on membership of the European Economic Area (EEA). Has Switzerland lost its privileged position as an oasis of wealth and stability in Europe? Has the National Bank been conducting an appropriate monetary policy? And is lack of competition in the domestic economy to blame for consumer price levels some 40 per cent above the EC average?

> The persistence of the recession has prompted debate over economic management which transcends immediate reaction to this month's vote on membership of the EEA, writes **Peter Montagnon**

Certainly, part of the increase in unemployment appears to be structural. Improved benefits have made lay-offs more acceptable. Workers of foreign origin are less mobile. Many of them are second-generation immigrants, who cannot simply be sent home as they were in the deep recession of the 1970s.

As Switzerland becomes less sheltered from the economic forces affecting other modern economies, some of its antiquated structures are being thrown into greater relief. In particular, the OECD has criticised the country for the wide range of restrictive practices which permeates its economy. Its report has fuelled a growing sense that Switzerland has done too little to restrict cartels, which have sustained prices in the non-traded sector of the economy at levels far above the international norm. Switzerland also has a heavily subsidised farm economy, and suffers from restrictive procurement practices by individual cantons.

Such are the current pressures on the economy that reform of these structures was almost certainly inevitable, whatever the outcome of the vote on joining the EEA.

A yes vote would, however, have accelerated the process, adding to growth and putting downward pressure on prices. According to a study by Bank Vontobel, membership of the European Economic Area would have reduced inflation by 1 to 1.5 percentage points and increased economic growth by 0.5 points over the medium term.

Even so, the kind of restrictive practices about which the OECD complains will take time to unwind. Since the main preoccupation of the public sector is to reduce its deficit, the monetary policy of the Swiss National Bank remains probably the most important factor determining the economic outlook in the short run.

Here, too, controversy rages. Monetarists regard the present policy as excessively tight and likely to stall any recovery and push up unemployment even further.

According to the OECD, the focus of monetary policy on the monetary base – cash in circulation plus sight deposits of the banking system at the central bank – no longer makes sense. The development of an electronic clearing system has brought about structural changes, which have marginalised the importance of the banking system's deposits.

A Yes vote would have been sweeter music Picture: Tony Andrews

Among the most frequently cited alternatives are the adoption of a target for M1 or the establishment of a direct relationship between interest rates and the exchange rate.

Mr Markus Lusser, president of the Swiss National Bank, has, however, dismissed the idea of an exchange rate peg, on the grounds that it would force Swiss interest rates to rise to German levels. M1, he argues, is a statistically unreliable indicator.

Other National Bank officials say the debate has less relevance at a time like the present, when all the various monetary aggregates point to weakness.

Some economists, such as Mr Kurt Schiltknecht, of the BZ Bank, argue that weak monetary growth means there is no risk of inflation from exchange rate depreciation. Central banks, they say, have been far too obsessed with maintaining exchange rate targets. The danger is that this can ultimately play havoc with the domestic economy, as the sad example of Sweden shows.

The National Bank is clearly not so sure that it can ignore the exchange rate. Bankers say that it is now increasingly pessimistic about the domestic economic outlook, and would probably like to see interest rates somewhat lower. But it is more likely to oblige if the franc is strong against the Deutsche Mark.

Key Facts

□ POPULATION:
6.8m, of whom 65 per cent are German-speaking; 18.4 per cent French-speaking; 9.8 per cent Italian-speaking; 0.8 per cent Romansch-speaking.

□ ECONOMY:
GDP at market prices (1991) SFr332.7bn (13th in OECD), GDP per capita (1990) SFr47,977 (highest in the OECD).

□ TRADE:
Exports total (1990) SFr88.3bn, to EC countries 57.8 per cent (1970 50.6 per cent); to Efta countries 6.6 per cent (1970 11 per cent).
Imports total (1990) SFr96.6bn, from EC countries 71.6 per cent (1970 69 per cent); from Efta countries, 7.2 per cent (1970 8.8 per cent).

□ EMPLOYMENT:
Labour force (1990) 3.6m.
By sector: agriculture 5.5 per cent, industry 34.9 per cent, services 59.6 per cent (incl trade 14.7 per cent, bank and insurance 5.3, hotel and restaurants 5.9, public services 3.6 per cent).
Unemployment rate (November 1992) 3.9 per cent.

Banking: the big three

The global market is the real challenge

ON THE surface, it has not been a particularly good year for Switzerland's big three banks. The recession in the domestic economy has continued, which will necessitate further heavy loan loss provisions for 1992. And two of them, Crédit Suisse and Swiss Bank Corporation, have seen their debt downgraded by Moody's rating agency.

Look a little deeper, though, and the picture becomes less negative. Neither the recession nor the liberalisation of the financial market in recent years has upset the position of the major banks at home. The real challenge, as before, remains that of tackling the international market.

Admittedly, the Swiss economy stubbornly refuses to recover, but the impact of recession varies from region to region. It has been harshest in the French-speaking west part of the country, and closely associated with the property market.

Its impact on the banks has thus been felt most keenly by smaller regional institutions. If anything, the large banks have benefited. Their grip on the domestic market has strengthened as the sector has restructured.

Mr Robert Studer, chairman of the Union Bank of Switzerland (UBS), says 150 banks have disappeared in the last 4½ years.

And Mr Georges Blum, who is due soon to take the top position at Swiss Bank Corporation (SBC), adds: "The retail market for the big banks will increase even further. Because of the difficulties of certain local banks, many customers will be forced to spread their risks and will work even more with the big banks."

As for financial liberalisation, which has seen the abolition of both fixed commissions for equity trading and the foreign bond issue cartel, the impact on the big banks' market share has been minimal, mainly thanks to their large distribution networks.

Seen from this perspective, the decision by Moody's to withdraw the top AAA rating from Crédit Suisse and SBC seems perverse. By international standards, the banks are well-capitalised, solid institutions.

Moody's cited the weakness of the Swiss economy as one reason for its action; though, in the case of SBC, it also pointed to the size of its exposure to such risky clients as the late Mr Robert Maxwell and Omni Holding, the collapsed Swiss conglomerate controlled by Mr Werner Rey.

Neither bank admits to any material impact on its business from the downgrading. SBC's Mr Blum even claims it has helped impose greater internal discipline on credit control. Nonetheless, the fact that UBS is both the only one of the big three to retain the prized AAA rating and to forecast higher profits this year suggests that Moody's differentiation is not entirely baseless.

Last month, SBC said it expected earnings to be little changed this year on the SFr1.08bn (£471m) earned in 1991. Crédit Suisse said it expected net profits to be comparable with last year's SFr848m.

It is perhaps a measure of Crédit Suisse's lagging position in the Swiss market – where it is very much the junior player among the big three – that it has also long been the highest-profile player in the international market. Unlike the other two banks, it has also chosen a decentralised structure, whereby the group's various operations are separate entities in their own right under the umbrella of a holding company, CS Holding.

The structure serves to emphasise the investment banking thrust of the group's international strategy. According to Mr Rainer Gut, CS chairman, the group's ambition is to be perceived as a top flight investment bank, like J.P.Morgan or Bankers Trust. That requires an Anglo-Saxon style investment banking culture.

"You can't integrate the commercial bank into the investment bank," he says. "You will kill one or the other."

If this approach undeniably fosters a high degree of entrepreneurialism, it also appears to be a striking admission that being Swiss does not on its own offer any particular advantage in the international marketplace. The various entities have to compete in their own right in their individual markets.

Critics say it is also a structure that is harder to control. It was also expensive to implement, because of tax costs on the issue of new shares. In theory, concentration on investment banking should also make for more efficient use of capital.

But there were also some anxious moments in this respect when the Swiss authorities decided the entire group should be subject to Switzerland's particularly stringent bank capital requirements.

At one stage, CS was expected to resolve this problem by floating 20 per cent of Crédit Suisse separately on the domestic stock market, a plan which was regarded with mixed feelings by some shareholders who felt they were to be sold something they thought they already owned.

In the event, the return to profit at First Boston, in the US, helped render the flotation unnecessary. The group's spat with the supervisory authorities is, however, a reminder that it sails closer to the wind where local capital requirements are concerned than the other two large banks. This policy, says one analyst, may again prove painful if the dollar rises sharply over the next 12 months or so.

SBC, by contrast, has been more actively involved in international commercial lending than the other two banks. But it is still living with the legacy of a decentralised past, in which individual general managers had considerable discretion over lending decisions. This resulted, as Moody's pointed out, in a chapter of accidents which have left the bank less time to concentrate on its international strategy.

Analysts believe, however, that Mr Blum will bring a much firmer hand to the running of the bank than Mr Walter Frehner, the outgoing chief executive. Mr Blum, himself argues, that the bank now already exercises strong central control over credit risk and has largely shed its decentralised "federal" approach of the past.

In the international arena, SBC has taken a quantum leap forward with the acquisition nearly two years ago of the derivative business of the O'Conner Partnerships in Chicago.

Not only is the contribution to profits from derivatives now rapidly increasing – as is also the case with CS Holding's Financial Products subsidiary – but Mr Blum also sees it as an entrée to other forms of business. "It gives us a very good platform for corporate America," he says.

UBS has been more cautious about developing a high profile in derivatives – a symptom, some say, of its slowness to exploit the strength of its balance sheet in international markets. Though it has capitalised on its high rating – for example, by earning fees from credit enhancement business – the traditional strength of UBS lies in its strong portfolio management business. UBS also insists on rigorous centralised control of risk, a policy which Mr Studer believes would be harder to pursue under the type of decentralised structure preferred by CS Holding.

UBS's Robert Studer: bank numbers down

SBC's Georges Blum: a bigger retail share

CS's Rainer Gut: keep them separate

Besides, he argues, the universal approach allows for a team effort to provide the corporate customer with the service he actually needs. As long as the bank can maintain critical mass in international wholesale markets, it is also in a strong position to transfer products and skills from one part of the world to another.

The temptation for a bank in the position of UBS might have been to use its AAA rating and Japanese banks' withdrawal from international business to make a determined attempt to raise its international market share. That its approach is more cautious may mean fewer rewards in future, but it also means less risk. In these uncertain days, quality of earnings counts for a lot.

Peter Montagnon

SWITZERLAND'S TOP BANKS: 1991 ($m)

	Tier One capital	Capital/assets ratio (%)	Pre-tax profits	Assets
1 Union Bank of Switzerland	13,131	7.14	1,225	183,911
2 Swiss Bank Corporation	9,262	6.07	1,005	152,564
3 CS Holding (Crédit Suisse)	7,833	4.32	1,115	162,661
4 Swiss Volksbank	1,617	4.72	86	34,298
5 Zürcher Kantonalbank	1,332	3.76	75	35,460
6 Banque Cantonale Vaudoise	603	6.12	56	9,858
7 Banca della Svizzera Italiana	562	7.68	55	7,318
8 Cantonal Bank of Berne	527	3.14	11	16,788
9 Union Bancaire Privée	479	7.21	69	6,651
10 Luzerner Kantonalbank	466	4.74	24	9,833

Source: The Banker, September 1992

Banking: the cantonal and regional players

Few easy answers

THE CANTONAL and regional banks are in the front line of small-scale local finance in Switzerland, and these days that is not a comfortable place to be.

The serene image of solid Swiss banking projected by the big universal banks and private banks falls apart at this more pedestrian level. Here there is real trouble and few easy solutions.

The collapse of property prices in particular has undermined their primary business, mortgage lending, while the squeeze on consumer spending has hurt their small business customers. Some of these banks have also fallen victim to dubious entrepreneurs and, in the case of the cantonal banks, excessive political interference.

Meanwhile, competition from the big universal banks is forcing them to find innovative ways to increase efficiency.

To appreciate the scale of the task they face, some comparative figures are helpful. The 28 cantonal banks – one for each canton, except for Vaud and Geneva, where there are two – had combined assets at the end of last year totalling SFr228.3bn (£102.7bn), roughly half the four universal banks' combined assets of SFr543.2bn. The 189 regional banks had only SFr92.7bn in combined assets.

Mr Marc Fues, executive vice-president of the Caisse d'Epargne de Genève, says a general service bank now needs at least SFr10bn in assets to survive. "Below that, life is going to be very difficult in the future," he predicts.

The squeeze on these banks first came to public attention last year when the Spar- und Leihkasse Thun, a regional bank in the canton of Bern, was suddenly closed by the Federal Banking Commission, leaving depositors bereft.

Marc Fues: 'SFr10bn to survive'

There has still not been a final settlement in that case, but the sight of a Swiss bank going bust and depositors lining up in vain to claim their money was enough to push the whole banking fraternity into creating a safety net.

Since then, as far as the regional banks are concerned, the safety net has worked well. In some cases, rescues have been arranged within the sector itself. Two weeks ago, six small regional banks in the Emmental region merged into two, although the Association of Swiss Regional Banks insisted that the move was preventive, in the sense that none of the banks involved was in financial difficulty.

In other cases, one of the cantonal or big banks has had to step in, the most recent case being when Crédit Suisse rescued EKO Hypothekar- und Handelsbank in Olten. In November, the Solothurn Cantonal Bank completed the acquisition of Bank in Kriegstetten.

So far so good, but banking industry officials worry that, if the economy remains depressed, the pace of failures could increase beyond the ability of the big banks to absorb them.

Among the cantonal banks, problems tend to be less urgent, largely because these banks are controlled by the cantonal governments, and their liabilities, to varying degrees, are guaranteed by the cantons.

Also, reflecting the great differences in the size of cantons, they vary so much in size that they can hardly be looked at as a group. The Zürcher Kantonalbank (ZKB), for example, had total assets at the end of last year of SFr48.1bn, ranking it among the universal banks and enabling it to have a significant role in the country's financial markets. At the other end, the Appenzell-Innerrhodische Kantonalbank, has only SFr919.1m in assets.

The main problem cases are the cantonal banks in Valais, Bern, Solothurn, Appenzell-Ausserrhoden and Basle City, of which the worst is undoubtedly Bern. The Berner Kantonalbank made large loans during the 1980s to the now defunct Omni Holding group led by Mr Werner K.Rey, and there have been charges that it did so under pressure from leading cantonal politicians. Provisions this year are expected to be similar to last year's level of SFr558m, exhausting the bank's capital and forcing the cantonal government to raise new funds to cover its liabilities.

The excessive political influence in some cantonal banks, especially in Bern and Solothurn, has brought calls from some quarters, notably the Swiss National Bank, that something be done. Some cantonal banks have asked to be regulated by the Federal Banking Commission. Others have found a partial solution through partial privatisation and the appointment of directors not connected to the cantonal governments. This has taken place in Vaud, Zug, Jura and Valais.

Up to now, to preserve the cantonal guarantee, there have been no privatisations beyond 50 per cent, and none are planned. However, the value of the cantonal guarantee could decline if Switzerland chooses to move towards harmonising its banking laws with those of the European Community.

Now that the Swiss have voted against joining the European Economic Area, there is no pressure to do so, but the government says it intends to move in that direction anyway. The immediate impact for the cantonal banks would be to eliminate the 12.5 per cent abatement they are allowed from normal capital requirements. This is given partly because of the cantonal guarantee, and partly because they are not allowed to raise subordinated debt (which is a meaningless form of capital when a state guarantee exists).

The elimination of this abatement would be expensive for the cantonal banks, requiring ZKB alone to raise an additional SFr300m in capital, so it is unlikely to happen quickly.

As they are creatures of their cantonal governments, these banks cannot legally merge, so the response of the smaller ones to rising costs and intensifying competition has been to co-operate in cost and service areas, such as data processing, clearing, lease finance, venture capital and pension fund management.

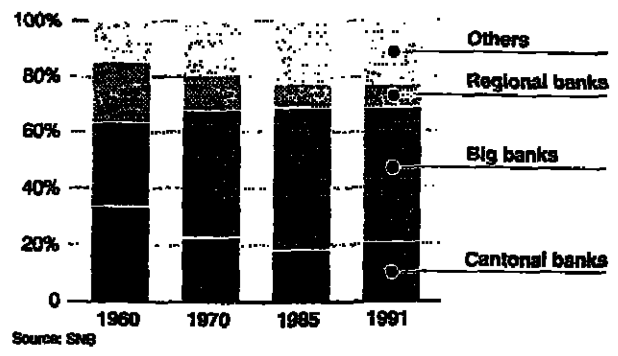
Early this year, six cantonal banks in north-east Switzerland, led by ZKB, signed a co-operation agreement with two large German banks in neighbouring Bavaria and Hesse, with a view to covering more cross-border trade as the European integration process advances. Similarly, the Geneva cantonal banks are eager to intensify links in neighbouring areas of France.

The banks are also contemplating setting up a holding company for handling new security issues and portfolio management.

The two Geneva cantonal banks have finally agreed on a project to merge, which will create a new bank with assets of about SFr14bn. The ownership structure of the new bank has been designed to limit the potential for political pressure, with the canton and local communities having equal shares and the public having 20 per cent at the start. The bank also intends to submit to regulation from the Federal Banking Commission.

Ian Rodger

Market shares by assets



Source: SNB

Peter Montagnon examines the bond market

The yield curve looks up

THE SWISS foreign bond market has enjoyed something of a renaissance since the summer, as the franc yield curve has returned to normal after a long period of inversion.

New-issue activity has leapt ahead after a first half which saw only SFr9bn (£4.1bn) of new issues, compared with SFr14.5bn in the same period of 1991. Between July and October, however, the pace of new issues jumped to around SFr11bn, roughly the same pace as that recorded in the previous year.

Bankers say they believe that volume could continue to run at high levels. Inflation is broadly under control, and the National Bank has become more worried about the economy. So, provided the Swiss franc does not suffer any pronounced weakness in the foreign exchange market, the central bank may now be ready to see short-term interest rates fall further, reinforcing the positive yield curve.

That should encourage investors to move out of short-term instruments and into longer-dated bonds, helping to establish a price level in the bond market that makes swaps attractive. During the long period when the yield curve was downward-sloping, swap rates generally remained unattractive and Switzerland lost business to other markets.

However, some bankers also acknowledge that, despite the trend towards liberalisation over the past few years, the Swiss foreign bond market has some way to go before it can match the depth of liquidity available in other markets.

For example, Switzerland only recently established a bond futures contract for government paper, an instrument which should improve liquidity by creating hedging opportunities as well as allowing for the establishment of a benchmark price in the market.

In fact, the instrument is imperfect in this respect, because the withholding tax levied on domestic bonds means the local market is subject to differing price trends.

The sharp increase in the borrowing requirement of federal, regional and local government, whose combined deficit is forecast by Bank Julius Bär at SFr8bn this year, meant the domestic market suffered from a considerable over-supply in the first half. This led to the unusual situation where domestic borrowers actually had to pay higher rates than foreign issuers in the Swiss market.

Unless the federal government were to start issuing large amounts of witholding-tax-free bonds to foreigners – which is unlikely, for political reasons – bankers say there is little chance of its paper becoming an accepted benchmark for the foreign bond market.

In the meantime, though, they do expect some increase in liquidity as a result of the September referendum decision on relaxing stamp duty requirements, which will effectively allow for more active market-making in Swiss foreign bonds.

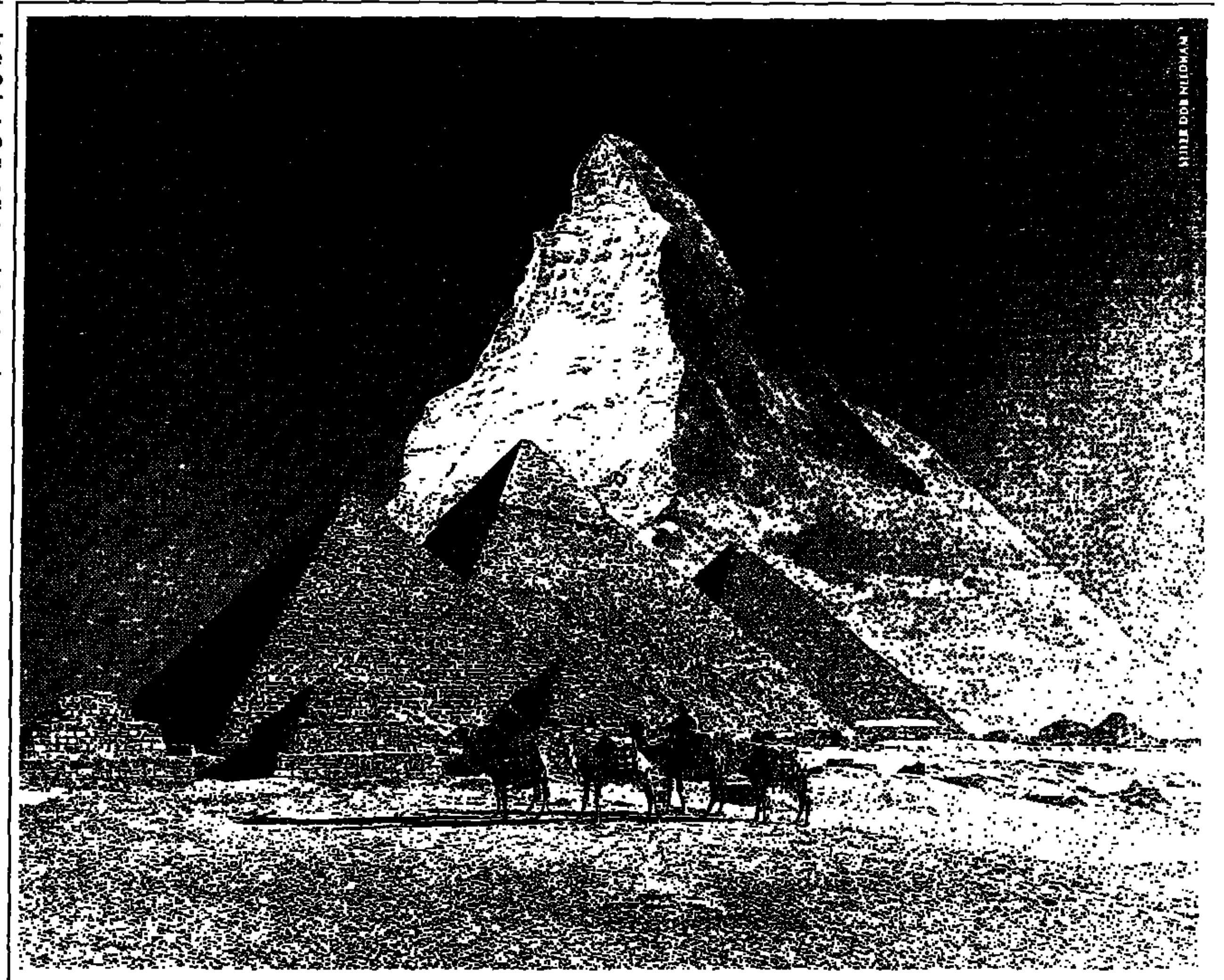
Large issuers, such as the European Investment Bank and the World Bank, have already begun introducing clauses into new-issue docu-

Continued on next page

New issues in the Swiss bond market (SFrm)

Year	Domestic issues, all categories	Foreign issues, all categories
1985	11,205.6	36,969.1
1986	11,054.3	42,461.0
1987	11,726.6	26,034.6
1988	13,527.1	40,029.2
1989	14,218.7	31,281.0
1990	17,146.1	32,173.7
1991	16,201.8	30,115.9
1992	17,739.7	17,163.7

Source: SNB, Swiss Bank



Banking: the private business

Still the world champions

IT HAS been a strange year for Swiss private banking. It began in an atmosphere approaching siege, as more and more big foreign banks turned their attention to this extraordinarily profitable niche, and it is ending in triumph as the turmoil in European exchange markets and economies brings unexpected new life to the haven aspect of Swiss banks.

Some bankers believe that this haven quality will be further enhanced by Switzerland's refusal earlier this month to join the European Economic Area (EEA).

But then private banking, as the Swiss like to emphasise, is an unusual business. The provision of financial services to the rich – or high net worth individuals, as the Swiss call them – is not like other types of banking. According to client surveys, the price charged for services in this field is far from the key to success, for example. Knowing how to deal with rich people and maintaining a stable, well trained staff are more important.

By all accounts, the Swiss are still the world champions in private banking. According to Chase Manhattan Private Bank, which is one of several non-Swiss banks with a significant presence in the country, wealthy individuals around the world have placed some $2,000bn in banks outside their home countries, and banks in Switzerland hold more than a third of it.

These figures are broadly similar to ones mentioned by others, but there is, in the nature of this business, no way of knowing for sure. Many of Switzerland's private banks are private partnerships that publish no accounts. Others do not reveal the extent of their funds under management.

However, in the past couple of years, some Swiss private bankers began to wonder if perhaps their magic touch was coming to an end. On the one hand, many hitherto fertile sources of funds, such as Mexico, were drying up as confidence in their currency stability stability grew, and people took their money home to invest.

On the other hand, non-Swiss banks were becoming increasingly active in the niche, seeing it as a source of stable earnings and minimal risks. According to a recent study by the management consultants McKinsey, the return on equity in private banking in Switzerland averages 42 per cent. The Swiss willingly admit that competition gets tougher all the time.

The Swiss have been irritated about foreign competitors' claims that Swiss private banks' charges were excessive and their investment performance for customers less than impressive. "That is an old story, and it is simply not true," says Claude Demole, a managing partner in the largest Geneva private bank, Pictet & Cie.

Mr Demole claims that, with the removal of the Swiss cartel on commission rates on securities transactions nearly two years ago, charges have tumbled. A customer's total fees now vary between 0.8 per cent and 1 per cent of his assets under management.

As for performance, Swiss bankers say the cult of performance, which flourished in the 1980s, has receded somewhat in the past couple of years as financial markets around the world have been depressed and/or volatile. If a private banker can merely succeed in preserving the real value of his clients' fortunes, he is doing well, they say.

"It is back to fundamentals," says Mr Patrick Odier, a partner in Lombard, Odier & Cie in Geneva. "Markets have been very volatile in 1992. We have had to work very hard to get a satisfactory result for our clients."

The non-Swiss claim that they are more attuned to world financial markets and the latest investing technologies than the Swiss. The Swiss reply that they are among the most global-thinking fund managers.

Also, technology, while important, is not a key marketing tool. "You do not run private banking on technology," says Mr Oskar Holenweger, chief executive of Bank Vontobel in Zurich. "It is a people business, a question of confidence and trust."

The competition gets tougher. But most Swiss private bankers say that the currency turmoil in Europe in September has helped their business

Mr Holenweger and others acknowledge that big foreign banks have an advantage in tapping into their home client bases for private banking customers, but he is mystified about why they would bring them to Switzerland. "Why should a foreigner bank with a foreign bank in Switzerland?" he asks.

Most Swiss private bankers say the currency turmoil in Europe in September has helped their business. The Zurich bankers have also gained considerably from tax increases in Germany and the threat of more to come as the country struggles with its budget.

On the other hand, a few customers were lost because of the final implementation of regulations in September requiring Swiss banks to know the beneficial owners of all accounts.

The tightening of regulations in recent years to prevent money laundering and insider trading and to ensure due diligence has been welcomed by private bankers. But there is some nervousness about a proposal that would require bankers to report clients suspected of being involved in illegal activity. "We risk making some big mistakes, and the problem of responsibility have not been sorted out," says Mr Demole.

Ian Rodger

The derivatives market

Soffex gets the real thing

The electronic exchange has had a good year, says **Ian Rodger**. *Options volume is up 35 per cent, and futures volume has more than doubled thanks to the new government bond future*

DERIVATIVES markets, in Switzerland as in most main financial centres, are among the most active and innovative to be found in these recessed times.

Whether it is in the Soffex futures and options exchange or in the warrant market on the Zurich Stock Exchange or in the over-the-counter (OTC) markets, there seems to be a constant flow of new activity.

Take the case of Soffex, now into its fourth year of life and revelling in the success of its latest product, a future on a long-term Swiss federal government bond.

Until this year, it was impossible for the exchange to organise futures on Swiss government bonds, because there were too few of them. In its place, a future on a synthetic bond, based on the five-year swap rate, was offered, but it was not what the market really wanted.

But this year, with the government's finances deteriorating, the volume of bond issues has increased, and a real future was introduced in May, the first Soffex future to be physically delivered. It is already trading at a level of 1,500 contracts a day, and attracting increasing interest. "We could always have more, but we are satisfied," Mr Otto Nägeli, chief executive of Soffex, says.

The other star products are the futures and options on the Swiss Market Index (SMI) of 21 leading issues (23 from next month) on the stock market launched in late 1990. Typically, the future accounts for more than half of all future trading, while turnover of the options accounts for about 40 per cent of all option trading.

The net result is that Soffex has had a good year. Options volume is up 35 per cent, and futures volume has more than doubled thanks to the new government bond future. Mr Nägeli is forecasting a return to profit for the exchange this year after a disappointing slump into a SFr0.86m loss last year.

Meanwhile, on the Zurich Stock Exchange, the volume of warrant issues on Swiss equities continues to grow, in spite of the gradual disappearance of the original reason for issuing them. When they were introduced in the mid-1980s, the objective was to help foreign institutional investors get around restrictions on the ownership of shares in many Swiss companies. In the past year, many companies have lifted those restrictions, but investors have learned to use these warrants to avoid payment of withholding or income tax on dividends. According to one active dealer in these securities, another attraction is that transaction costs are significantly lower than on the equivalent values of underlying shares.

In the OTC markets, the big banks make most of the running with their offers of strangely named new derivative products like GROIs and CLOUs, which are designed to give small investors a bit of a flutter as well as a secure return. The big banks are also the main producers of tailor-made packages for their big customers, which tend to be very big but not actively traded.

These issues have compensated largely for the drying up of Japanese warrant issues in the past year, which used to be the mainstays of the over the counter market.

There are no clear statistics on the relative importance of these derivative markets, but participants say the stock exchange warrant market is the largest, perhaps accounting for half the total value of contracts and commissions, with the rest split between Soffex and the OTC markets. Soffex claims to be the third-largest options exchange in Europe, after the Deutsche Termin Börse and the London International Financial Futures Exchange (Liffe), and number two in index options, thanks to the success of the SMI options.

For all the progress, the year has not been a total success. Soffex encountered its first important reversal early this month, when it announced the suspension of trading in short term Eurofranc interest rate futures. The volume did not develop "in keeping with Soffex expectations", the exchange said in a statement.

This was the one case in which Soffex was offering an identical product to that offered on Liffe, and market participants say that Liffe provided a more efficient market than Soffex, and so attracted most of the volume.

Mr Nägeli acknowledged defeat, suggesting that, ironically, Soffex's weakness was the transparency it offered as an electronic exchange. That transparency is much appreciated when there are many small participants dealing in a product, but in this case, the market was dominated by large professionals. "Professionals prefer to trade outside an exchange or, if they have to use an exchange, they prefer the outcry system where posted prices are indicators, not fixed offers. So I would have to say this was a product not suitable for an electronic exchange."

Similarly, the low exercise price call options (LEPOs), introduced in May 1991, have not been a great success, with volume of 51,000 contracts this year. They are vehicles for avoiding stamp duties, and Mr Nägeli says market participants do not seem to have understood them.

Among new products under consideration at Soffex are options on futures. The exchange could launch them in the second quarter of next year, probably on the federal bond future, although the liquidity and open interest are not yet big enough. Mr Nägeli says the only other plausible candidate would be the SMI future, but he suspects that would just split the volume that exists already on the options and the futures.

Soffex has made some progress in the past year on co-operation with other European futures exchanges, notably those in Amsterdam, Vienna and Stockholm, with which trading links have been established. It has also won regulatory approval to sign up its first member based outside Switzerland, Timberhill in Germany, and has applications from six others.

With the rejection of the European Economic Area (EEA) treaty by the Swiss in a referendum two weeks ago, it is likely that regulatory co-operation between Switzerland and other European countries will remain difficult and this process will be retarded.

The insurers

More look to far horizons

MR SILVIO CAFLISCH, senior vice-president at Winterthur, Switzerland's biggest insurance company, cannot contain his enthusiasm about the successful expansion of his company in the UK.

Only three years after its establishment, Churchill, the direct motor insurance subsidiary formed by Winterthur, has amassed a 2 per cent share of the motor insurance market and is beginning to make profits. "It's a dream. I can feel lyrical about it, even though I don't expect such beautiful margins to last for ever," says Mr Caflisch.

Churchill, like Direct Line, the pioneer of direct selling in the UK, advertises its products in the press and television and sells directly to the public over the telephone.

Nor is Winterthur the only Swiss insurance company innovating successfully in overseas markets. Zurich Insurance, Winterthur's biggest rival, is looking at its overseas business with a fresh eye, focusing on highly specialised market segments such as Wisconsin meat packers, US auto dealerships and British local authorities rather than the traditional "all insurances to all customers" approach.

These shifts in international strategy have been dictated by declining margins on domestic business as the Swiss seek to compete in a more competitive and deregulated European market.

Overseas expansion is not new. The domestic Swiss market is simply too small to contain the ambitions of its largest companies. The nine biggest companies control 81 per cent of the non-life market, with Zurich and Winterthur between them accounting for nearly 40 per cent of sales.

After rapid growth during the 1980s, the domestic life and non-life markets are virtually saturated. The Swiss spent $1,292 per head on non-life insurance and $1,635 on life insurance in 1990 – the highest levels of spending in the world – according to Sigma, a statistical digest produced by Swiss Re, the country's biggest reinsurance company.

Non-life premium income: 1990

Rank	Company	SFr (m)	Market share %	Status
1	Winterthur	2,235	20.6	Quoted
2	Zürich	1,931	17.8	Quoted
3	Mobiliar	1,136	10.5	Mutual
4	Bâloise	1,041	9.6	Quoted
5	Elvia	736	6.8	Quoted/Swiss Re
6	Berner Allgemeine	502	4.6	Private
7	National	443	4.1	Private
8	Waadt	440	4.1	Mutual
9	Helvetia	418	3.9	Quoted
10	Schweiz Vers.	240	2.2	Swiss Re

Source: UBS Phillips & Drew

However, until recently the domestic market was highly profitable, generating huge surpluses which Swiss companies could invest in overseas ventures. A liberal taxation regime has enabled Swiss companies to build up reserves more easily than competitors in the UK and the US, while cartel-like arrangements at home have traditionally guaranteed healthy profits on domestic business.

During the 1970s and 1980s these advantages allowed Swiss Re to consolidate its position as one of the world's biggest direct insurance companies and paved the way for Zurich and Winterthur to build their own overseas empires.

Both companies have won a reputation as providers of global all-risks insurance programmes to multi-national companies, increasingly overshadowing British companies, which once dominated this field. Both companies also moved ahead in Europe. Both they and Swiss Re's local direct insurance subsidiary are among the leading foreign companies in the competitive and rapidly growing Spanish market, and have significant activities in various corners of the US.

Recently, though, the character of overseas expansion has changed, as Swiss companies come under greater competitive pressures in their home market.

"The Swiss market is becoming more competitive, although a good steady flow of profits is still going to be there – but not to the same extent," says Mr Simon Rudolph, insurance analyst at Morgan Stanley.

Although Swiss voters rejected membership of the European Economic Area in December – which would have brought the country directly into the European single market – local law has already been modified in order to extend some of the provisions of European insurance directives to Switzerland.

At the beginning of 1989, a cartel by which property insurers had set minimum premium rates was lifted, triggering unprecedented competition in the industrial risks market and moves are also afoot to liberalise the motor insurance market. "The cartel is melting away like the snow in the sun," says Mr Caflisch.

New approaches have emerged in response to these realities. Winterthur's preparedness to break with traditional distribution methods and Zurich's highly selective approach to overseas expansion, are designed to boost underlying profitability. "We made so much money in Switzerland we could subsidise our companies abroad," says Mr Caflisch.

"There is now much more urgency to repatriate profits. In the past we have acted as a small copy of the mother organisation, serving traditional markets with traditional products through traditional distribution systems."

Churchill can do better than many of its more conservative competitors because it underwrites more selectively, rejecting drivers who it considers to be bad risks, and avoids paying commission fees to brokers, the industry's traditional intermediary.

Winterthur sees Churchill as a laboratory experiment which it is already using to redevelop other parts of its international business. Already a "direct writer" has been established in Denmark, for example.

Zurich believes that by building up expertise and understanding the businesses of its clients in depth, it can obtain better underwriting results and a more stable long-term relationship with its clients.

By emphasising its ability to provide advice about how to manage risks – by installing fail-safe equipment in a chemical factory or by new management procedures for the drivers of hire cars – Zurich believes it can not only reduce claims but also retain greater numbers of customers when policies are renewed each year, thereby cutting its overall distribution costs.

Recent moves to acquire blocks of business from the stricken Municipal Mutual, were motivated less by the desire to pick up market share than by the desire to build up long-term relationship with MMI's local authority customers, so that it can manage the insurance business profitably.

Chief executive Mr Rolf Huppi says that even though local authority business might have been loss making in the past, by working closely with customers and by being the best in that category of business, Zurich can make it profitable.

Richard Lapper

Bonds: the curve improves

Continued from previous page

mentation, permitting more bonds to be sold at a later stage. Thus it is expected that, over time, investors will be able to buy into large issues with a high level of liquidity.

The hope is that this will attract fresh institutional investors into the market, further eroding the traditional dominance of the retail market. With greater liquidity and a stronger institutional presence, there could even be some structural fall in yields, which would help attract borrowers.

Swiss bankers are acutely aware that, to win mandates nowadays, they have to compete with other international markets which may be able to offer more attractive swap rates. This is a much larger preoccupation for them than either the breakdown of the bond-issuing cartels a couple of years ago, or the more recent succession of payment difficulties experienced by heavily indebted corporate borrowers such as Heron and Mountleigh of the UK.

The end to the old cartels, whereby the big banks were able to secure the lion's share of new-issue activity, has not done much to alter their overall market share, largely thanks to their strong distribution capability. Indeed, if anything, it is that smaller banks that have suffered, as there are no longer formal arrangements for them to participate in the market.

There is no doubt that the larger banks have not yet lost their sense of wounded pride over the way in which Warburg Soditic, the Geneva-based bank, managed to upset the cartel arrangements which had served them so well in the past. But the changing nature of the market, in which an ever larger amount of new business has become swap-driven, means that the cartels would have probably died a natural death sooner or later.

The immediate response required when a swap opportunity arises means there is no time to parcel out deals and pre-arrange market share. Indeed, the large banks nowadays have to compete more and more with each other to win mandates.

A lingering worry is that the highly publicised difficulties of some corporate borrowers, a number of which were brought to the market by Soditic, has harmed Switzerland's reputation as an issuing centre.

Admittedly, fears of a bad reputation are probably overdone, but there is no denying that investors have become more selective. They are reluctant to buy paper with a rating less than AA, and there has been a shift in favour of sovereign and supranational names.

Such preferences mean that the market may face a singular challenge next year, which will be see the peak refinancing requirement for the warrant bonds issued by Japanese borrowers in the late 1980s.

At the moment, it is not clear how many of these issuers will actually attempt to refinance their borrowing in Switzerland. Some are expected to refinance the debt in the Japanese market. Others may choose to refinance in other currencies, such as US dollars, if swap rates are more attractive.

It is tempting to wonder whether the banks privately hope that a large portion of this particular business may pass them by. The saturation of the market with warrant issues during the 1980s, for which the large banks rather than houses such as Soditic were responsible, has not been particularly helpful.

Ironically, though, with the Nikkei index at such a low point, it is possible that the warrants on the refinanced paper may prove more valuable than those on the original issues.

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday December 17 1992

INSIDE

Nokia to sell off paper company

Nokia, the Finnish electronics group, is selling all its shares in Jamont, Europe's second largest paper tissue company, in a deal worth at least FM550m ($108m). The disposal means the group is severing its last ties with forestry, the industry on which it was founded 127 years ago. Page 18

Power surge

Seeboard, the electricity distributor, produced one of the strongest results of the UK electricity sector yesterday with a 53 per cent rise in pre-tax earnings, and a 14 per cent dividend increase. Meanwhile Northern Electric announced a 52 per cent increase in pre-tax profits for the six months to September 30, and said it will cut electricity prices from the New Year. Page 22

Change on the agenda at LME

Mr Raj Bagri time as chairman of the London Metal Exchange begins when important issues have to be resolved – among them the question of whether the time is ripe for the exchange to move aggressively to win copper business away from the New York Commodity Exchange. Page 24

Nervous Bombay open for trade

Bombay has this week slowly limped back to commercial life, following the violence which hit the city after the destruction of the mosque in Ayodhya. But it will take much longer to restore confidence in the financial markets. Shares on the Bombay Stock Exchange, which was closed for three days after the mosque's demolition unleashed nationwide unrest, have fallen 6.8 per cent from pre-crisis levels. Back Page

European carmakers cut jobs

Volkswagen, Europe's biggest carmaker, is expected to announce another round of restructuring, including heavy job cuts, following yesterday's announcement of a slide into loss in the last quarter of this year. Meanwhile, Renault Véhicules Industriels, the truckmaking subsidiary of Renault, has confirmed that it will lose 1,348 jobs next year. Citroën, the French carmaker, is hoping that its newest model will help it regain French market share. Page 20

Harry steps aside at Hillsdown

Sir Harry Solomon, chairman, chief executive and co-founder of Hillsdown Holdings, the international food group, said yesterday he would step aside at next April's annual meeting. Pages 18 and 22

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				Union Immob Fr	472.4	+	18.3
Rises				**Falls**			
DLW	414	+	9	Sophyinvest	600	-	50
VEW	222	+	7.5	Pinault	270	-	11.2
Falls				Radiotechn	220	-	11
Asko	850	-	13	Redoute	6110	-	240
Douglas Hld	420	-	9	**TOKYO (Yen)**			
Rheinmetall	240	-	7	**Rises**			
Volkswagen	235.5	-	9	Casio	549	+	61
NEW YORK ($)				Orient Watch	258	+	21
Rises				Toyo Chemical	550	+	58
Amer Express	24⅞	+	½	Yokohama Mat-sui	639	+	99
Gen Motors	33	+	⅞	**Falls**			
Intel	83	+	3⅞	Sansui Elec	213	-	22
Falls				Showa Rubber	200	-	19
Amer Cyanamid	55⅞	-	2⅛				
IBM	51⅞	-	4¼				
Safety-Kleen	22⅝	-	6⅛				
PARIS (FFr)							
Rises							
Roussel-Uclaf	410	+	20				

New York prices at 12.30pm.

LONDON (Pence)				Sanderson Elec	239	+	13
Rises				Simon Eng	181	+	6
Alvis	18	+	5	Tadpole Tech	179	+	13
Amber Day	34	+	4	Tarmac	106	+	8½
Bank Ireland	190	+	10½	**Falls**			
Chemring	383	+	55	Aegis	17	-	3
Cornwall Ptl A	210	+	11	Dale Elec	88	-	9
Daily Mail A	573½	+	5½	Hammerson A	285	-	12
Greenaway	120	+	16	Learmonth Bcht	119	-	7
Hawthn Leslie	3¾	+	1¼	MTM	15	-	16
Hillsdown	130	+	8	Pegasus	114	-	5
Meggitt	80	+	5	Queens Moat	34	-	3
Premier Cons	21	+	3				
Ransomes	26	+	4				
Rolls-Royce	109½	+	5½				

Suez refinances two banking subsidiaries

By Alice Rawsthorn in Paris

THE precarious state of the French property market has forced Suez, the industrial and financial group, to pump FFr2.38bn ($430m) of new capital into Indosuez and Credisuez, two of its banking subsidiaries.

Suez, which has extensive holdings across the French property sector, has already this year made provisions of FFr1.9bn on property losses.

It is expected to make additional provisions for the second half, in addition to the recapitalisation which will inject FFr800m into Indosuez and FFr1.56bn into Credisuez.

The announcement of Suez' refinancing comes when France's banks and insurers are awaiting the announcement of government proposals to support the property industry.

The property market has experienced difficult problems for the last three years, particularly in Paris where average rentals have fallen by 20 per cent.

The Paris market has not fared as badly as that of London or New York, but French financial groups have still suffered sharp falls in the value of their property holdings. Mr Gérard Worms, chairman of Suez, recently estimated that the French banks' outstanding property loans were between FFr400bn and FFr500bn.

Suez saw its interim net profits fall to FFr500m for the first half of 1992 from FFr1.8bn in the same period last year, mainly because of the large increase in property provisions.

Indosuez alone raised its interim loan loss provisions to FFr1.39bn from FFr517m, triggering a slide in net profits to FFr82m from FFr517m.

Banque La Hénin, which is linked to Credisuez, barely broke even in the first half because of property problems.

La Hénin has already been restructured and will receive FFr560m of the new capital that Suez is injecting into Credisuez.

The announcement of the recapitalisation comes when Suez is under pressure from Union des Assurances de Paris (UAP), the French insurer, which is one of its largest shareholders, to cede control of Colonia, a German insurer.

Suez recently broke off negotiations with UAP over Colonia.

World Stock Markets. Page 36

IBM share price falls on payout warning

By Martin Dickson in New York

SHARES in International Business Machines plunged for the second successive day yesterday as Wall Street analysts sharply lowered their earnings forecasts in the light of Tuesday's announcement of deepening problems at the world's largest computer manufacturer.

Many analysts said this week's restructuring announcement, which will include 25,000 job losses and capacity cutbacks in 1993, might still be inadequate to turn IBM around – even though it came on top of 40,000 job cuts in 1992 and numerous other packages that were supposed to revitalise the company.

Some analysts advised clients to sell the stock, which only a few years ago was regarded as the bellwether of the US market.

The shares dropped $4¼ to $51⅞ by midday, with IBM being by far the most actively traded stock. The shares plunged 11 per cent on Tuesday and stood nearly 50 per cent below the 1992 high of $100¼.

IBM is to take a $6bn fourth-quarter charge to cover its restructuring – bringing to $11.1bn its workforce and capacity cut charges in 1992 – and it says its fourth-quarter operating results will be about break-even, well below Wall Street forecasts.

Analysts said the company seemed to be on course for 1992 operating earnings per share of around $2.50, and a loss after charges of around $4.75bn, which would be the largest by a US company, topping General Motors' $4.45bn loss in 1991.

With IBM warning that poor business conditions will continue in 1993, many analysts said they expected the company to record a first-quarter loss. Its new earnings estimates for 1993 ranged from between $1.75 and $3.75, against a mean forecast before Tuesday's news of about $5.70.

Most analysts said the company was too fond of blaming economic conditions while failing to react quickly to shifts in demand away from mainframe computers to desktop models. One said it still needed to cut a further 50,000 employees.

The plunge in the share price was partly because of IBM's warning that its $4.84 annual dividend was no longer secure. Its previous insistence that it had no plans to cut the high yielding pay-out had helped put a floor under the stock.

Lex, Page 16; World Stock Markets, Page 36

Kevin Done reports on the restructuring in the wake of losses and falling demand

Medicine replaces champagne for Ford of Europe

Ford of Europe executives had planned to spend New Year's Eve at the Hilton in London's Park Lane celebrating, to the sound of popping champagne corks, the launch of the new Ford Mondeo, the car that replaces the Ford Sierra next spring. Now the New Year's Eve ball has been cancelled, and the champagne has been shelved.

Instead Ford's European operations are being forced to swallow more bitter medicine with heavy job cuts and further restructuring measures, as the US carmaker seeks to staunch its renewed losses in Europe.

After a record loss last year of $1.079bn on its European automotive operations, including Jaguar, Ford believed it had begun to turn the corner. "In April I thought the horizon was bright and sunny," said Mr Bill Fike, president of Ford of Europe, but that was before demand began to weaken in Germany, Italy and Spain and when UK recovery appeared closer.

The operations had returned to the black in the first half of 1992 and Ford of Europe had optimistically launched its "Drive for Leadership" campaign with the two aims of gaining "world class product delivery and a fully competitive cost structure".

The return to profit in the first half has proved a false dawn, however, and Ford's European operations, once one of the group's best profit earners worldwide, face another round of restructuring.

The announcement yesterday that Ford of Europe is to cut more than 10,000 jobs by the end of 1993 means the workforce of its European automotive operations (excluding Jaguar) will have shrunk 28 per cent to 83,000 in three years, from 115,000 in 1990.

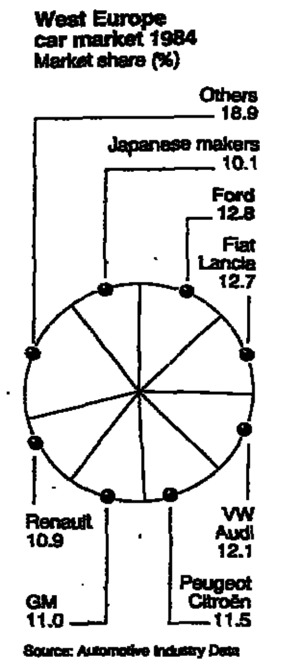
The need to cut costs became so acute that Ford was forced to cancel its European automotive operations management meeting late last month "because of the continuing serious deterioration in our financial performance and the absolute need, therefore, to avoid discretionary expense", according to Mr Lindsey Halstead, Ford of Europe chairman.

In many respects Ford's productivity and cost base in Europe were "uncompetitive", said Mr Halstead, who retires at the end of the month. He will be replaced by Mr Jacques Nasser, the 44-year-old former chief executive of Ford of Australia. Mr Nasser faces an uncomfortable introduction to Europe.

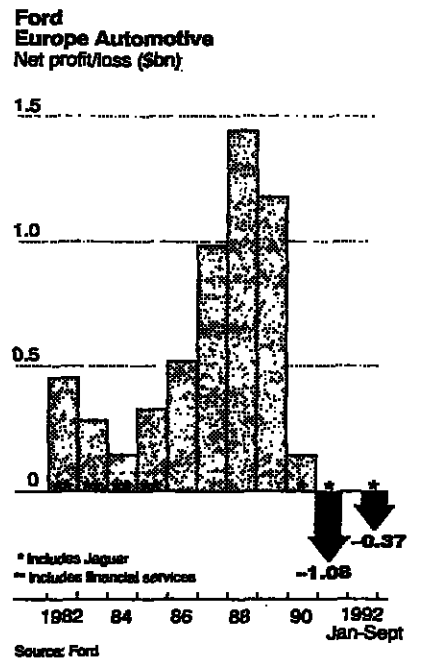
New car sales in western Europe are forecast to fall 3.5 per cent next year, the second successive annual decline. And the industry is facing the growing spectre of overcapacity as new plants, planned in the era of record sales at the end of the 1980s, are brought on stream.

At the same time competition is intensifying. Europe has become the main battleground of the car industry in the 1990s, as the leading Japanese carmakers establish their first car plants inside the world's biggest market. Ironically Ford's announcement of job cuts coincided with Toyota, Japan's leading carmaker, opening its new £700m ($1.1bn), 200,000-a-year car assembly plant in the UK. Ford is not alone in facing growing woes in Europe – Volkswagen, Europe's largest carmaker, admitted yesterday that it had slumped into loss in the fourth quarter.

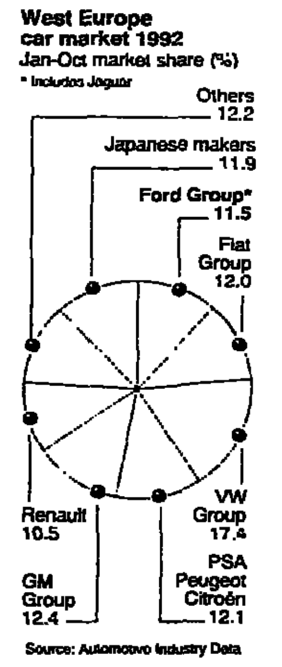
However, Ford has lost ground in Europe where it has slipped from leadership of the car market in 1984 to fifth place this year.



Source: Automotive Industry Data



Source: Ford



Source: Automotive Industry Data

More damaging is the loss of profitability. Ford's production planning in Europe for 1992 has proved painfully over-optimistic and it has had to resort to far-reaching short-time working since the summer in order to cut excess stocks and bring supply into line with falling demand.

In September Ford calculated it would need, in the UK alone, 150-160 downshifts at its Halewood and Dagenham car assembly plants. This number has now increased to 210 downshifts in 1992, and there have also been increasing production shutdowns at the Cologne, Saarlouis, Genk and Valencia plants.

Ford of Europe is now attacking the continuing losses with emergency measures announced yesterday, which include:

- the elimination of more than 10,000 jobs across Europe;
- the reduction of capacity at the four car assembly plants in the UK and Germany;
- the transfer of several in-house components manufacturing operations, such as seat making, to outside suppliers;
- the removal of further layers of management;
- a cut in corporate bureaucracy and the elimination of duplication between Ford's national sales companies and its European headquarters in the UK.

"We are trying to concentrate on the core business, the design, manufacture and sale of cars and light commercial vehicles," says Mr Fike. "The engineering of components for systems and the manufacture of some non-core items will be eliminated."

The biggest move in this direction is Ford's decision to transfer seat making for its next generation Fiesta and Escort/Orion cars to a new joint venture to be formed by Johnson Controls of the US and Bertrand Faure of France, two specialist automotive seat makers. Ford will in future be supplied on a just-in-time basis from satellite plants established by the component makers. Ford's US-based Automotive Components Group is also examining the establishment of a plant in Poland or Czechoslovakia to make seat covers to supply the new joint venture.

Mr Fike says Ford of Europe is now determined to "eliminate non-essential work and reduce bureaucratic controls and layers of management". In the engineering activities management layers are being cut from seven to five, and in manufacturing from six to five.

Yesterday's job cuts bite heavily into the salaried workforce. "We are trying to cut duplication between national sales companies and staff activities. There will be fewer checks and balances than historically. We will run our business with fewer pieces of paper and much more with numbers."

While the latest cuts go deep Mr Fike insists that the reductions are being made "surgically. This is not a lawnmower." He promises that new product programmes will not be hit. "But we must make cash to pay for future programmes, and if that means our share must drop somewhat, then it will drop."

Volkswagen and Citroën, Page 20

Owners Abroad widens market through link with Thomas Cook

By Richard Gourlay in London

OWNERS Abroad, the UK's second largest tour operator, yesterday signalled further consolidation within the European holiday market by announcing a tie-up with Thomas Cook Group and its German parent, LTU Group.

Thomas Cook will secure a 10.3 per cent stake in an enlarged group while Owners Abroad will have additional access to the Thomas Cook chain of retail outlets. Owners Abroad will also invest £20m ($31.5m) in fixed-rate loan notes in Thomas Cook.

The announcement places a new dimension on months of speculation that a bid was imminent for Owners Abroad. In October the company said it had received an approach from a potential purchaser.

Observers said the alliance with Thomas Cook and the powerful LTU travel group was like a shot across the bow of the predator, believed to be Airtours, the UK's third largest tour operator.

Owners' shares initially fell, as the likelihood of a full bid receded. But they recovered to close down only 1p at 87p as it became apparent that the tie-up with a group of Thomas Cook's stature could strongly improve its competitive position.

Mr Christopher Rodrigues, Thomas Cook chief executive, described the deal as three joint ventures or partnerships reinforced by the swap of shares and loan notes. In addition to increased links between Owners' tour operation and Thomas Cook retail, aircraft fleets and tour operations would be amalgamated. The partnerships would enhance operating profits by £14m in the year ending October 1994 – half of which would be retained by Owners Abroad and half by Thomas Cook and LTU.

On the retail side, there would be joint marketing of Owners Abroad holidays. Mr Rodrigues said Thomas Cook was likely to expand the retail outlets by nearly a third to more than 440.

Owners Abroad reported pretax profits down in the year to October from £31.6m to £25.5m on sales of £772m. The total dividend is to increase from 3.2p to 3.5p.

Earlier this year LTU bought 90 per cent of Thomas Cook. Westdeutsche Landesbank, which owns 34 per cent of LTU, bought the other 10 per cent and Airtours bought the Pickfords travel agency chain from NFC, the transport group.

Lex, Page 16; Details, Page 22

British Gas wins Argentine deal

By Stephen Fidler, Latin America Editor

A CONSORTIUM led by British Gas yesterday bought the largest gas distribution company in Argentina in a privatisation auction in Buenos Aires yesterday with a bid of just over $300m.

The bid for Distribuidora de Gas Metropolitana, which supplies 1.7m consumers in Buenos Aires, values the company at just over $700m.

British Gas, which holds a leading 41 per cent stake in the consortium, will take over management of the company by the month-end, installing Mr Rob Varrion, a former regional operations director in Britain, as general manager.

Mr Peter Lehmann, director of British Gas's global gas division, said the price "was very reasonable for us and very fair for the government".

The consortium, which includes the Argentine conglomerate Perez Companc, will own 70 per cent of Metropolitana and is taking over its debts.

A majority of the rest will be sold to the public next year, with the remainder held by employees.

The other gas distribution company in Buenos Aires, Gas de Buenos Aires Norte, supplying 850,000 consumers, was sold yesterday to Gas Natural, a subsidiary of Spain's Repsol, for $155m.

The third-round auctions for the two companies complete the privatisation of the state monopoly, Gas del Estado, split into eight distribution and two transportation companies for sale. The sale valued the industry's assets at over $4bn, nearly double the government's minimum price.

Mr Charles Alexander, a director of NM Rothschild, adviser on the project, said the privatisation had secured a "very broad spread of investors in the Argentine gas industry", with operators from Britain, Belgium, Spain, Italy, Chile, the US and Canada all emerging as winners.

The acquisition will double the size of British Gas's global gas division from where it hopes to make 20 per cent of its profits by the end of the decade.

Further investment in Metropolitana – whose area covers 21 per cent of the country's population and which supplied 4.8bn cubic metres of gas in 1991 – would be financed out of its turnover, British Gas has said. It is committed to invest $103.7m over the next five years in the company.

Nokia sells $108m stake in tissue producer Jamont

By Christopher Brown-Humes in Stockholm

NOKIA, the Finnish electronics group, is selling all its shares in Jamont, Europe's second-largest paper tissue company, in a deal worth at least FM550m ($108m).

The disposal means the group is severing its ties with forestry, the industry on which it was founded 127 years ago.

The buyers of the 13.4 per cent stake are James River, the US paper group, and Italian investment company Cragnotti & Partners. They will gain full control of Jamont as they own 86.6 per cent of its shares through Jamont Holdings.

Nokia says the sale will release a profit of some FM200 to FM300m for investment in its core mobile telecommunications and electrical activities. The final price will depend on Jamont's 1992 profits and currency factors at the year-end.

The trigger for the sale was the expiry of an option agreement, although Nokia signalled its desire to leave the paper business some time ago.

Under the original joint venture agreement of 1989, when Jamont was set up by Nokia, James River and Italy's Ferruzzi, the Finnish group's paper activities became largely a portfolio investment.

A year later, it sold a 50 per cent stake in Jamont-Nokia, one of two companies established under the joint venture, and was left with just 13.4 per cent in Jamont. That sale was concluded for FM559m.

Jamont, with expected 1992 sales of Ecu1.2bn ($1.5bn), has about 14 per cent of the European tissue market, trailing Scott of the US with 18 per cent.

Nokia also said its Nokia Cables and Machinery subsidiary was setting up a joint stock company near Tallinn in Estonia with Harju KEK. Nokia will upgrade Harju Elekter's cable-making lines to enhance the Estonian group's export possibilities.

Austrian banks see rising bad debts

By Ian Rodger in Zurich

THE Austrian economy has been a rare star performer among industrialised countries in the past year. But bleak announcements this week from the country's two largest banks, Z-Länderbank Bank Austria and Creditanstalt Bankverein, make clear that the good times have come abruptly to an end.

Creditanstalt, which in July looked forward to a better second half, said yesterday it would slash its annual dividend by 60 per cent to Sch6 per share and eliminate the staff bonus to build reserves for rapidly mounting bad loans.

Bank Austria would not comment on its dividend plans, but forecast a 6 per cent slump in its pre-tax profits for the year to about Sch1.9bn ($172m) and provisions of close to Sch5bn.

Mr Guido Schmidt-Chiari, chairman of Creditanstalt, said the sudden deterioration of the finances of small and medium size companies in Austria "came as an unpleasant surprise to all banks".

He said three years of a very strong currency and high real interest rates were taking a heavy toll. A record number of business failures was expected this year.

In some cases, there were extraordinary factors at work. Textile and clothing producers were being badly hit by European Community association agreements with eastern European countries that came into effect this year and discriminate against non-EC producers.

The forest products industry was suddenly facing tougher competition as a result of devaluations in Scandinavia and sluggish demand in its principal export market, Italy.

Mr Rene-Alfons Haiden, chairman of Bank Austria said: "Inland credit risks have grown in all areas, and I fear that the situation will be worse next year."

The Creditanstalt dividend cut shocked investors, and the ATX index of 18 leading shares on the Vienna Börse, fell 1.7 per cent to 738.77, its lowest point since August. Creditanstalt preferred shares dropped Sch14 to Sch421 and the ordinary shares were off Sch11 to Sch460.

The cut was particularly surprising in the light of the bank's forecast of roughly unchanged pre-tax profit of Sch2.1bn for the year and a 10 per cent rise in operating profits to Sch3.2bn. "We had a long discussion about it, but my feeling is that we are not living in a period for half-measures," Mr Schmidt-Chiari said.

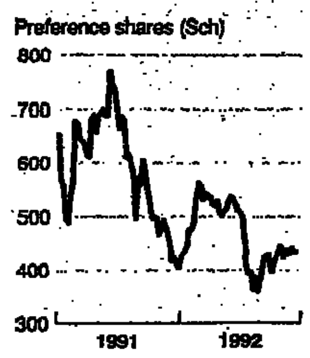
The cut will save Sch355m and the elimination of staff bonuses another Sch200m. The bank has set a preliminary figure of Sch800m for provisions compared with last year's Sch577.7m. It made clear that provisions for foreign borrowers would be lower this year.

Mr Haiden said he expected Bank Austria to make an operating profit of Sch2.9bn-Sch3bn, down from Sch3.31bn. Earlier, the bank, which will seek London and New York listings for its shares next year, said its pre-tax profits would fall to Sch1.9bn from Sch2.05bn in 1991.

Both banks are cutting costs and eliminating excessive marketing practices in the domestic market. Creditanstalt said it expected the payoff to begin to appear next year, and was budgeting for higher profits for 1993.

Creditanstalt

Preference shares (Sch)



Source: Datastream

Snia BPD subsidiaries to merge

By Haig Simonian in Milan

SNIA BPD, the chemicals, bio-engineering and synthetic fibres subsidiary of Italy's Fiat group, yesterday moved a step further in restructuring its operations with the merger of two quoted subsidiaries.

Snia Technopolimeri, a stock market-listed operation which specialises in plastic films for packaging, is to be merged into Caffaro, the group's chemicals subsidiary, which is also quoted. The combined concern will have sales of around L645bn ($460m), double that of its two components individually.

The announcement of the deal comes shortly after EniChem, the chemicals subsidiary of the state-owned Eni energy and chemicals group, announced plans for a major shake-up of its operations. The parent company will take charge of a number of formerly independent operating units.

Incorporating the 10 subsidiaries involved should also produced considerable cost savings, estimated at up to L200bn a year.

After the changes, EniChem, which currently has a holding company structure, will directly control a group with 16,000 employees and sales of around L6,500bn.

The Caffaro-Snia Technopolimeri merger is due to take place in early 1993, following shareholders' meetings at the two companies in February.

Caffaro is also buying four other operations from Snia Fibre and Snia BPD, covering commercial sales in Europe and polymer production in the US and Europe. The transactions and future growth will be financed by a L100bn convertible bond issue.

● IRI, the Italian state holding company, is to take temporary control of the defence and aerospace interests of Efim, the state-owned group put into voluntary liquidation in July, pending a full takeover.

The agreement seals an announcement by the Italian government that the two activities, comprising predominantly the Oto Melara defence unit and the Agusta helicopters concern, would be "rented" to IRI's Finmeccanica unit for up to six months.

A price will be negotiated during the "rental" period, to start on January 1. Both units are likely to be incorporated in Finmeccanica's listed Alenia aerospace and defence subsidiary.

Swissair to open register to foreigners

By Ian Rodger

SWISSAIR, the Swiss airline group, will swap all its bearer shares into registered ones and open its share register to foreigners.

At the moment, foreigners can only buy the group's non-voting dividend right certificates.

After by-law changes planned for the next annual meeting, no single shareholder would be allowed to hold more than 3 per cent of the shares or exercise over 3 per cent of the votes. However, shareholders on the record today with larger holdings will be allowed to hold and register them.

Swissair said it would take further measures to ensure Swiss majority ownership of the group in conformity with its bilateral air services agreements.

● Bâloise Holding, the Swiss insurance group, said its consolidated pre-tax profit for 1992 would be slightly lower than last year's SFr140m ($99.32m) but the SFr30 dividend would be maintained.

The group said premium income would rise 3 per cent to SFr6.3bn. Life business growth was weaker than in 1991 but satisfactory.

Philips to change accounting practice

By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics group, is to switch to historical-cost accounting from its previous current-cost system with retroactive effect from January 1 1992. The move is part of wider changes in accounting policies designed to bring the company into line with most other big international companies.

Philips also plans to use the US dollar as the "functional" currency in highly inflationary South American countries such as Brazil instead of the local currency. This will enable Philips to simplify reporting by dropping the lines "revaluation," "gearing adjustment" and "monetary adjustment" for these local currencies from its annual financial reporting.

If these changes had been implemented in 1991, Philips' net profit from normal business operations would have been around Fl 881m ($489m), Fl 100m lower than the published figure. The ratio of total liabilities to total capital employed would have been 75.8 per cent against 73.5 per cent.

The changes, foreshadowed in the company's 1991 annual report, coincide with the appointment at the end of the month of a new Anglo-Saxon-trained finance director, Mr Dudley Eustace, the former finance director of British Aerospace. Mr Eustace, who joined Philips in mid-1992, will be taking over from Mr Henk Appelo, who is retiring.

Philips also said it would adopt new US standards on post-retirement benefits such as healthcare and other non-pension benefits for its former employees around the world.

On software, Philips is to apply the principle of capitalising the expenditure on software for certain products and then writing this off over the product's life. However, it said it would not be capitalising any expenditure this year "in the interest of prudence".

The company will also move to a more international practice on goodwill payments by capitalising and amortising them. Dutch accounting rules allow a company to charge goodwill directly to shareholders' equity.

In a recent interview with an in-house magazine, Mr Eustace said he planned to start up a high-profile programme of holding meetings with analysts and fund management to coincide with the release of quarterly figures, in line with Anglo-Saxon practice.

He also said cutting the debt bill would be a priority. "If there was just one thing I would like to achieve in the next five years, that would be to make this company healthy again by substantially reducing its debt," he said.

Share swap in Spanish oxygen producer

By Peter Bruce in Madrid

BANESTO, the Spanish bank, is to take a 1 per cent stake in the French industrial gas group, Air Liquide, after a share swap, announced yesterday, which will leave the French group in almost complete control of Spain's largest oxygen producer, Sociedad Espanola de Oxigeno.

Under the deal, Banesto's industrial corporation, which has a stake of 24.9 per cent in SEO, and Bestinver, an investment vehicle controlled by the Entrecanales construction family, which has a further 9.06 per cent of SEO, will transfer these shares to Air Liquide.

The French group already has 58 per cent of the Spanish group. Under the agreement, Banesto will receive 0.99 per cent of Air Liquide's stock from Airliquide's US arm, ALIC. The stock is worth about $87m. Bestinver will receive 0.36 per cent of Air Liquide, also from ALIC, worth about $31m.

It remains unclear whether Banesto intends to hold on to its Air Liquide stake.

Sir Harry Solomon to step aside at Hillsdown

By Maggie Urry in London

SIR Harry Solomon, chairman, chief executive and co-founder of Hillsdown Holdings, the international food group, said yesterday he would step aside at next April's annual meeting.

Sir John Nott, a non-executive director of the group, will become executive chairman, and Mr David Newton, chief operating officer, will become chief executive. Sir Harry will stay as non-executive director. The shares rose 8p to 130p.

Sir Harry said that after 17 years running Hillsdown he decided it was time to go. He said it was also time to separate the roles of chairman and chief executive.

He said that at the age of 55, "it's time for me to do other things". He said he had no intention to sell any of his 5.3m shares. He had never had a contract with the company and would receive no compensation for leaving.

Sir John said he had not wanted to be a non-executive chairman, and would be based at Hillsdown's head office. He said he did not expect to be involved in the day-to-day running of the business but would "stand a bit further back from it than Harry".

He said there would be no significant strategic changes, but acknowledged "the overriding need is to reverse the [downward] trend in earnings per share".

The group would continue with its rationalisation plans and the process of selling its non-food interests, he said.

The company said that current trading was "in line with expectations" although it was too early to forecast final demand for the important Christmas period. It reiterated the intention, stated in September, that the final dividend of 6.6p would be maintained, to give an unchanged total for the year of 8.8p.

London Stock Exchange, Page 25;
Details, Page 22;
Observer, Page 15

INTERNATIONAL COMPANIES AND FINANCE

US judge overturns Price Waterhouse jury verdict

By Andrew Jack

A US JUDGE has overturned a $338m jury verdict brought by Standard Chartered against Price Waterhouse, the accountancy firm, in a move which paves the way for a new trial next spring.

Judge John Sticht, of the Superior Court of Arizona, has granted PW's motion for a new trial, which was submitted in July following a verdict last May against the firm on seven of eight charges.

In a memo circulated yesterday to all his Price Waterhouse partners, Mr Shaun O'Malley, the senior partner in the US, says the judge called the jury verdicts "so irreconcilably inconsistent as to be blatantly erroneous".

But Standard Chartered said last night that it remained confident in its claims and would be "pressing forward to recover the full amounts, together with the interest now accruing".

It has the options of appealing the judge's verdict, pursuing the new trial or entering out-of-court discussions for a settlement. The PW memo said no such discussions had yet taken place.

The court case stems from a lawsuit brought in 1988 by Standard Chartered which alleges that Price Waterhouse had failed to identify and report "material deficiencies" in the loan portfolio and internal controls system of United Bancorp, an Arizona bank bought by the UK bank in 1987.

Standard Chartered paid $335m for United, which made heavy losses, and 18 months later sold it to Citicorp for $207m.

The UK bank's lawsuit claimed that Price Waterhouse was negligent in its 1985 and 1986 audits of United Bancorp.

The trial in Arizona lasted 11 months until last May, and has already cost Price Waterhouse and Standard Chartered millions of pounds in legal fees.

If Judge Sticht had not granted the application for a new trial, PW would have been forced to produce a bond of at least $200m before it could have appealed the verdict to a higher court.

● Standard Chartered announced the sale of 13 commercial buildings in Hong Kong housing some of its branches, which it will lease back from the local purchaser.

The sale proceeds before disposal costs will be £64m ($97.8m) while the cost of the properties including improvements was £9m. The bank said the sale would increase its Tier 1 capital by £55m.

Exploration by Amoco directed overseas

By Alan Friedman in New York

AMOCO, the Chicago-based energy group, has underlined the trend in the US oil and gas industry towards keeping a tight rein on capital spending and directing more funds to projects outside the US.

Amoco said it planned to spend $3.2bn on capital investment and exploration next year, a budget that is largely unchanged on the spending level authorised for this year.

Some $1.85bn of this amount will be devoted to exploration and production, of which 70 per cent, or some $1.3bn, will be outside the US.

Last year, the company spent $1.275bn on exploration and production overseas.

A growing number of US oil and gas companies have decided recently to redirect exploration efforts away from the US. This trend results partly from congressional and local restrictions on drilling offshore of Florida and California and the coastal plain of the Arctic National Wildlife Refuge in Alaska.

Last July, Amoco announced cost-cutting plans to take an $800m restructuring charge in the second quarter and to reduce its workforce by 8,500 employees, or 16 per cent, by the end of next year.

In the first nine months of this year, Amoco's net income was $222m, compared with $1.33bn in the same period of last year.

Argentine insurer's issue cleared

By Richard Lapper

THE ARGENTINE parliament has given the go-ahead for the privatisation of the Caja Nacional de Ahorro y Seguro.

The Caja, the largest insurance company in Argentina with a 13 per cent market share, is the latest of a number of companies to be offered for sale by the government since it began an ambitious privatisation programme in August 1989.

Kleinwort Benson, and Coopers & Lybrand, together with its local partner, Harteneck Lopez, have been retained to advise on the sale, which is expected to go ahead as soon as March next year.

Kleinwort has been involved in other Argentine privatisations in the energy sector including the sale of Gas del Estado, but this is its first venture in the financial services area.

Mr John Williams, of Kleinwort Benson, said that the government was seeking to sell a majority stake of between 50 and 60 per cent of a new holding company, which would in turn own the Caja's insurance and banking businesses.

The government is likely to be looking for possibly as much as one-and-a-half times these assets, added Mr Williams. Caja's net assets are currently estimated at between $150m and $200m.

Companies in North America, Germany, and France had already expressed signs of interest, said Mr Williams, while Mapfre, the large Spanish company which already has strong Latin American subsidiaries, could also be a bidder.

The Caja sells annual life, motor and general insurance. Annual premiums in the year to June 30 amounted to $503m. Its commercial and savings banks had over $566m in deposits at the end of June.

At present, the company sells simple term life insurance products, but prospects for life business could be transformed by new pensions legislation planned for next year which will permit the provision of private pensions.

The life industry in neighbouring Chile grew strongly in the 1980s following similar legal changes.

The Caja also has good distribution with a network of 42 branches and 12 agencies. It employs 3,064 people, of whom 1,972 work in insurance and 1,092 in banking.

Argentina also plans to sell off the nationalised reinsurance company Instituto Nacional de Reasseguros [Inder]. probably next year.

Alcan optimistic on outlook

ALCAN Aluminium saw a "bright mid to long-term future for the aluminium industry." Mr David Morton, chairman and chief executive of the Canadian group, forecast that demand should grow significantly in 1994-95, adding that it was "a period when no additional primary capacity would becoming on-stream", AP-DJ reports.

Mr Morton said net capital spending in 1993 would again be lower than the US$880m spent in 1991. He added that the level should be "below $500m". The company is expected to end the year with about $530m in capital spending.

Since 1989, Alcan has cut about 8,000 jobs, or 14 per cent of its work force, and has scaled back production costs as well as selling and administrative expenses.

Through the first nine months of 1992, the company has cut $166m in costs, after inflation.

Mr Morton said the industry's oversupply was not likely to be remedied in the coming year. There is about a 1.5m metric ton surplus of aluminum, in large part because of production by the former Soviet Union.

He added that a 500,000-ton swing in the surplus could cause a "rocketing" in aluminum prices, which are currently about $1,200 a metric ton.

Such a swing, he pointed out, could come from one or two smelters dropping out, and from a surge in imports by China, which "is growing like a weed".

Mr Morton said the company would set up an office in Moscow which would be in operation in the next quarter.

He said that the new office would help identify and pursue opportunities in metal trading, the sale of smelter technology, possibly joint research and development, and downstream fabrication. But, he went on, "we are not rushing out there with an open cheque book".

Dutch insurer in venture with US group

By Richard Lapper

NCM Holding, the Dutch trade credit insurer, yesterday announced a joint venture with The Fidelity & Deposit Companies, a leader in the US domestic bonding and insurance industry.

The new insurer, Maryland-Netherlands Credit Insurance, will underwrite commercial export credit risks.

Maryland-Netherlands will be chartered as a composite insurer and will file for licences in all 50 states.

F&D will hold 51 per cent of the new company.

Intel expects to top market expectations

INTEL of the US expects fourth-quarter results to be "well above" analysts' estimates due to high demand for its Intel486 microprocessors, Reuter reports.

The company, which earned $189m, or 90 cents a share, in the 1991 fourth quarter, also said fourth-quarter revenues would be 25 per cent above the third quarter's $1.43bn.

According to estimates collected by Zacks Investment Research, Intel's fourth-quarter net income per share is forecast to be between $1.15 to $1.30 a share. Estimates from IBES place the figure between $1.15 to $1.36.

Mr Andrew Grove, Intel chief executive, said the combination of seasonal strength, brisk personal computer unit demand, worldwide migration from the Intel386 to the Intel486 microprocessor, excellent factory performance and solid demand "for our other products" was producing better-than-expected fourth-quarter results.

O&Y Developments files debt restructuring plan

By Robert Gibbens in Montreal

OLYMPIA & York Developments yesterday filed details of its November debt restructuring plan in Ontario Court, but some bankers and bondholders said acceptance in a mid-January vote was by no means certain.

In Toronto, O&Y said the filing was based on the November proposal under which senior creditors could claim their collateral at any time.

This eliminated an earlier provision that would have delayed this right for five years and required further capital injections into O&Y's flagship office towers in Toronto.

Under the new plan, senior creditors could take back O&Y properties immediately and O&Y would become a management company controlled by the Reichmann brothers.

Besides the main Canadian properties, creditors could also seize O&Y's stock in Abitibi-Price, the Canadian forest products group, Gulf Canada Resources, an energy company, and Trizec, Canada's largest publicly-traded property holding company.

About 34 creditor groups will vote on the plan in the week of January 11.

Meanwhile, O&Y remains under bankruptcy protection in Canada. O&Y is negotiating separately to restructure its US property holdings.

Several bankers and bondholders, who did not wish to be identified, said if creditors refused the plan, for closure proceedings could begin immediately as institutions rush to seize collateral.

A vote in favour would mean acceptance of what amounts to an orderly liquidation of the O&Y Canadian business under which further negotiation might be possible.

● BCE has raised total proceeds of about C$377m from the exercise of share purchase warrants for common shares of TransCanada PipeLines, AP-DJ reports.

BCE, the Canadian conglomerate, said its investment in TransCanada had been reduced to about 9 per cent.

Revco sets price for rights issue

REVCO, the US drugstore operator which emerged from bankruptcy earlier this year, yesterday set the subscription price for its proposed rights issue at $80 a share, writes Nikki Tait in New York.

The sale of the new shares will, therefore, raise $110m for the retailer.

FIDELITY ORIENT FUND

Société d'Investissement à Capital Variable
Kansallis House, Place de l'Etoile
L-1021 Luxembourg

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the Annual General Meeting of the Shareholders of FIDELITY ORIENT FUND, a société d'investissement à capital variable organised under the laws of the Grand Duchy of Luxembourg (the "Fund"), will be held at the principal and registered office of the Fund, Kansallis House, Place de L'Etoile, at 11:00 a.m. on December 29, 1992, specifically, but without limitation, for the following purposes:

1. Presentation of the Report of the Board of Directors.
2. Presentation of the Report of the Auditor.
3. Approval of the balance sheet and income statement for the fiscal year ended August 31, 1992.
4. Discharge of the Board of Directors and the Auditor.
5. Election of six (6) Directors, specifically the re-election of Messrs. Edward C. Johnson 3d, Barry R. J. Bateman, Charles T. M. Collis, Charles A. Fraser, Jean Hamilius and H.F. van den Hoven, being all of the present Directors.
6. Election of the Auditor, specifically the election of Coopers & Lybrand, Luxembourg.
7. Consideration of such other business as may properly come before the meeting.

Approval of the above items of the agenda will require the affirmative vote of a majority of the shares present or represented at the Meeting with no minimum number of shares present or represented in order for a quorum to be present. Subject to the limitations imposed by the Articles of Incorporation of the Fund with regard to ownership of shares which constitute in the aggregate more than three percent (3 %) of the outstanding shares, each share is entitled to one vote. A shareholder may act at any meeting by proxy.

Dated: November 13, 1992

BY ORDER OF THE BOARD OF DIRECTORS

Fidelity Investments

NORTHAM PLATINUM LIMITED

("Northam")

(Registration No. 77/03282/06)
(Incorporated in the Republic of South Africa)

RIGHTS OFFER TO RAISE APPROXIMATELY R357 MILLION - SALIENT DATES

As announced in the press on 14 December 1992, the directors of Northam have decided to proceed with a rights offer on the basis of 42 shares at R14.75 per share for every 100 shares of 1 cent each held at the close of business on Friday, 18 December 1992.

THE JOHANNESBURG STOCK EXCHANGE ("JSE")

The JSE has granted listings in respect of the renounceable (nil paid) letters of allocation from Monday, 21 December 1992 until Wednesday, 13 January 1993 and for the new shares from Thursday, 14 January 1993.

THE LONDON STOCK EXCHANGE ("LSE")

Dealings in the letters of allocation will commence under Rule 535.4 of the LSE rules on Monday, 21 December 1992.

Application will be made to the LSE for the letters of allocation and the new shares to be admitted to the Official List. It is expected that listing will become effective and dealings will commence under Rule 520 of the LSE rules in the letters of allocation (nil paid) and the new shares (fully paid) on Tuesday, 29 December 1992.

Important dates of the rights offer are:

Last day to register to participate in the rights offer ("Record Date")	Friday, 18 December 1992
Listing of renounceable (nil paid) letters of allocation, commences on the JSE	Monday, 21 December 1992
Dealings in renounceable (nil paid) letters of allocation, will commence on the LSE under Rule 535.4	Monday, 21 December 1992
Rights offer opens	Thursday, 24 December 1992
Dealings commence in the letters of allocation (nil paid) and in the new shares (fully paid) on the LSE under Rule 520	Tuesday, 29 December 1992
Listing of renounceable (nil paid) letters of allocation on the JSE terminates	Wednesday, 13 January 1993
Last day for splitting letters of allocation in London (14.30)	Wednesday, 13 January 1993
in Johannesburg (14.30)	Thursday, 14 January 1993
Listing of and dealings in new shares on the JSE commences	Thursday, 14 January 1993
Rights offer closes - last day for lodging and payment (Johannesburg at 14.30 and London at 14.30)	Friday, 15 January 1993
Postal acceptances postmarked on or before 15 January 1993 accepted until close of business on	Wednesday, 20 January 1993
Share certificates and fraction cheques posted	Monday, 25 January 1993

A circular giving full information regarding the rights offer will be posted to shareholders on Thursday, 24 December 1992. Copies of the circular will be available for inspection from 24 December 1992 at Northam's registered and transfer offices as well as that of the brokers to the issue.

Registered and Transfer Offices

75 Fox Street
Johannesburg
2001

P.O.Box 1167
Johannesburg
2000

Brokers to the Issue

(In the Republic of South Africa)
Ferguson Bros., Hall, Stewart & Co. Inc.
(Registration No. 72/08905/21)
(Member of The Johannesburg Stock Exchange and the South African Futures Exchange)

(In the United Kingdom)
Cazenove & Co.
(A member firm of The Securities and Futures Authority and of the London Stock Exchange)

Johannesburg
17 December 1992

A member of the Gold Fields Group

THE RANDFONTEIN ESTATES GOLD MINING COMPANY, WITWATERSRAND, LIMITED

Registration Number 01/00251/06
(Incorporated in the Republic of South Africa)

DIVIDEND

An interim dividend, dividend no. 115 of 35 cents per share has been declared in respect of the first half of the current financial year:

Last date for registration	8 January 1993
Registers close (dates inclusive) from	8 January 1993
to	15 January 1993
Currency conversion date (for payments from London)	18 January 1993
Date of payment	2 February 1993

SHARE WARRANTS TO BEARER

Holders of share warrants to bearer are informed that payment of the above dividend will be made on or after 2 February 1993 upon surrender of coupon no: 118 to Barclays Bank Plc., Stock Exchange Services Department, 168 Fenchurch Street, London EC3P 3HP.

Coupons must be listed on forms obtainable from Barclays Bank Plc. and deposited for examination on any week-day (Saturday excepted) at least seven clear days before payment is required.

This dividend is payable subject to the customary conditions which may be inspected at or obtained from the company's Johannesburg Office or from the London Secretaries, Barnato Brothers Limited, 99 Bishopsgate, London EC2M 3XE.

By order of the Board
Johannesburg Consolidated Investment Company, Limited
Secretaries
per: Mrs. M.M.R. Naude

WESTERN AREAS GOLD MINING COMPANY LIMITED

Registration Number 59/03209/06
(Incorporated in the Republic of South Africa)

NOTICE TO SHAREHOLDERS

The Board has decided to pass the dividend in respect of the current financial year.

Head Office and Registered Office:
Consolidated Building
Fox and Harrison Streets
Johannesburg 2001.
P.O. Box 590, Johannesburg 2000

17 December 1992

NOTICE OF INTEREST RATE

To the Holders of
International Bank for Reconstruction and Development
Undated U.S. Dollar Floating Rate Notes of 1985

In accordance with the provisions of the Notes, notice is hereby given that the above Notes will bear interest for the period from December 15, 1992 to and including March 14, 1993 at a rate per annum of 3.8175913% payable on March 15, 1993 in the amount of $95.44 in respect of each $10,000 principal amount of Notes and $2,385.99 in respect of each $250,000 principal amount of Notes.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *Fiscal Agent*

Dated: December 17, 1992

Volkswagen plans further cutbacks

By Christopher Parkes in Frankfurt

VOLKSWAGEN, Europe's biggest carmaker, is expected shortly to announce another round of restructuring, including heavy job cuts, following yesterday's announcement of a slide into loss in the last quarter of this year.

The plans are expected to be agreed at an extraordinary meeting of the supervisory board on January 13, which will also approve sharp cuts in the new year's investment programme.

According to Mr Dieter Ullsperger, finance director, heavy fourth-quarter losses would make a considerable dent in the full-year earnings, and he repeated an earlier warning that the dividend might be cut. The group made just over DM1bn ($637m) profit in 1991, and paid out DM11 on ordinary and DM12 on preference shares.

He also forecast further trouble in the new year, when, he said, the German car market would shrink by 20 per cent and deliveries to Europe would fall 10 per cent.

The motor trade had deteriorated "suddenly and dramatically" since September, he said. Other factors included the recent appreciation of the D-Mark, which would cost the company DM200m. Extraordinary pension provisions during the quarter had drained a further DM485m, compared with DM85m in the comparable part of 1991.

Mr Ullsperger, who gave no details of expected losses, said the group had also lost DM250m because of the forced closure of its Sarajevo plant in the former Yugoslavia. An illegal strike in Mexico had cost DM100m.

Economies already made this year included a reduction of almost DM3bn in planned capital spending.

Cost-cutting action already taken this year included cuts of DM1bn in spending plans for the Seat subsidiary in Spain, DM1.2bn at the German parent company – including DM250m in its plant in Mosel, eastern Germany – and DM400m in other overseas operations.

In the spring, before the extent of the current downturn was suspected, VW announced plans to reduce its German workforce through natural wastage by 12,500 over five years. Around 6,800 domestic jobs have already gone this year and short-time working has been introduced in all its plants.

Analysts said the company was now preparing its employees for even more dramatic action. They suspected the extra pensions provisions, necessary for the early retirement component of the payroll reductions, had been loaded into the fourth-quarter result to underline the need for greater economies.

Dieter Ullsperger: expects German car market to shrink

Mr Ferdinand Piëch, who formally takes over as group chairman on January 1, is already having a profound influence on management thinking, according to analysts. He is an engineer, known as a hard man to please, and dedicated to increasing productivity.

VW produces 12 cars per employee each year compared with more than 17 at its rival Opel, owned by General Motors.

Despite its problems, the group claimed to have increased its European market share from 16.4 per cent to 17.5 per cent this year. Group turnover was likely to rise 13 per cent to DM86bn and unit sales were expected to be up about 6 per cent at 3.5m vehicles.

Volkswagen shares, which peaked at DM410 in May, dropped a further DM9 to DM235.50 on the news. Daimler-Benz, parent of Mercedes-Benz, also lost DM6.40, falling to DM506.60 after the group further reduced its production forecasts for 1992.

Short-time working at the turn of the year would cut total output of cars to 529,000, compared with 578,000 in 1991. Mr Edzard Reuter, group chairman, said on Tuesday night that 1993 had been "an annus horribilus although our house has not burnt down".

The group, which is currently reducing its workforce by almost 50,000, had made an early start on dealing with its difficulties, he said. Daimler expects full year profits to fall to around DM1.5bn after DM1.9bn last time.

See Lex

KIO named as seller of C & C stake to Jardine

By Kieran Cooke in Singapore

SINGAPORE banking sources yesterday confirmed that the Kuwait Investment Office (KIO) had been the seller of a 16 per cent stake in the local Cycle & Carriage company to Jardine of Hong Kong for S$212.5m (US$129.7m).

Earlier this week, Jardine announced it had bought the C & C stake from OCBC Securities, a company owned by the Singapore-based Overseas-Chinese Banking Corp.

Singapore-based investment analysts said the Jardine move was both good and bad news for the island republic. The purchase has brought life into what has been an inactive local market. It also signals a further move by Hong Kong's biggest "Hong" – or trading house – into Singapore.

In late October, Jardine announced that its retail division, Dairy Farm International, would buy the Singapore retail company Cold Storage Holdings for S$130m.

But brokers were concerned about the effects on the local market of continued KIO disposals. "The KIO has sold a large chunk of its holdings in this part of the world in recent months," said one broker. "If it sells everything in a hurry then it could cause some nervousness around the region."

The KIO still retains substantial shareholdings in blue chip stocks in Singapore, Malaysia and Indonesia. It also has extensive property holdings and is involved in the plantations sector.

● A consortium led by Singapore's Keppel Corp has acquired the Philippines National Oil Dockyard and Engineering Corporation (PDEC) for 680m pesos ($27.6m), Reuter reports.

The offer by Keppel and its three Philippine-based partners was the highest among foreign bids which closed in October. The sale of the 22.9 hectare yard is part of the Philippine government's effort to privatise state-owned companies and revitalise the Philippines economy.

Switzerland goes to the market on stock indices

Ian Rodger on the introduction of SILO and MILO

THE Swiss stock market is dominated by the shares of a handful of giant multinational industrial companies and banks. This has an important bearing on Swiss index futures.

In the SMI index of the 21 leading Swiss shares, the three pharmaceutical groups, Ciba-Geigy, Roche and Sandoz, account for over one-third of the weighting, and Nestlé alone another 28 per cent.

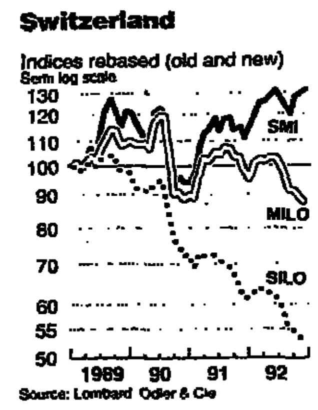
Lombard, Odier, the Geneva private bank, argues that these companies' activities are so international that their performance has precious little to do with the Swiss economy or business climate.

Thus, the SMI index and even the all-share Swiss Performance Index (SPI), where the SMI 21 accounts for more than 70 per cent of the total market capitalisation, give a misleading impression of what is really going on.

Lombard, Odier has developed two new indices, one of medium-sized Swiss quoted companies (the MILO index) and one of small Swiss companies (the SILO index). There already exists a Vontobel Small Companies Index (VSC), and Lombard, Odier acknowledges that the performance of it and SILO are much the same, even though composition criteria are slightly different.

Lombard, Odier uses the same criterion, market capitalisation, for selecting the components of its indices as the SMI, and is basically taking up where the SMI leaves off.

The MILO index is composed of the 94 listed securities of the next 50 largest companies after the SMI 21. SILO reflects the remaining 295 listed shares of 209 companies.



Source: Lombard Odier & Cie

WHY draw the line at 50? It seemed the right place to split between medium and small companies, Mr Serge Ledermann, Lombard, Odier head of Swiss research, says. It also happens to be close to the capitalisation of SFr500m which is accepted as the border between small and medium-sized companies.

Lombard, Odier has been able to project its indices backward to 1980. The result is not a pretty picture. Both MILO and SILO have underperformed the market as a whole. SILO disastrously.

The SBC index of nearly the whole market, for example, has doubled since 1980 while MILO is up only 80 per cent and SILO is down 20 per cent. The divergence in performance is particularly pronounced since 1988. The SMI (which was introduced in 1989) is up 30 per cent, while MILO is off 12 per cent and SILO nearly 50 per cent.

Lombard, Odier analysts say this is to be expected, given a high inflation rate and the Swiss government's credit squeeze in that period. Also, the smaller company shares are generally less liquid and not of interest to index funds. In recent weeks, the uncertainty over Switzerland's referendum on joining the European Economic Area has accentuated the divergence between big and small shares still further.

But it may also point to some opportunities when signs of recovery in the Swiss economy appear. Many of the companies in these indices have made great efforts to improve their competitiveness in the past few years.

"In the mid-range we think we will find the blue chips of tomorrow," says Mr Ledermann.

ANZ Bank predicts profitability

AUSTRALIA and New Zealand Banking Group expects a reasonable profit recovery in the current year after posting a loss of A$579m (US$399m) for the year ended September, Reuter reports from Melbourne.

"We expect a reasonable profit recovery in the current year and progressive improvement in ANZ's performance over the next two to three years," the bank said.

"The principal factor in the return to profitability will be a major reduction in the provisioning charge from the abnormally levels of recent years," it added in its annual report.

The bank charged A$1.6bn towards bad and doubtful debts in 1991-92.

Citroën expects new model to help it regain former market share

By William Dawkins in Paris

CITROEN, the French carmaker which forms part of the Peugeot group, yesterday predicted that next year its newest model would help it more than regain the French market share it lost in 1992.

Citroën, which yesterday presented its new Xantia, a sleek-looking upper medium-range saloon, has seen its French market share slip this year by 0.8 percentage points to 11 per cent. Mr Jacques Calvet, group chairman, yesterday said Citroën would recover its share of the national market to 13 per cent or 13.5 per cent in 1993.

The Xantia's arrival on the market next March comes at a time when the French car industry is in a creative period with a series of new models. They include the arrival over the past year of the Renault Safrane, top of the executive car market, to be followed next month by Renault's Twingo, an innovative small car of strikingly cheerful design.

Mr Calvet said Citroën had gained European market share, despite its setback in the French market this year.

It will have sold 766,300 vehicles overall in the 17 countries of western Europe in the 12 months to the end of December, representing a 5.7 per cent rise in car sales in a market down by 1 per cent.

Mr Calvet predicted that the European car market would shrink by 4 per cent next year, in line with most other industry estimates.

He expected Citroën's European market share to rise from 4.5 per cent to 4.8 per cent this year. Over the same period, the proportion of Citroën's production sold outside France will rise from 64 per cent to 67 per cent. Citroën's world production this year will, however, show a small decline, from 811,891 vehicles in 1991 to 790,700, due to the company's continuing campaign to reduce stocks.

● Renault Véhicules Industriels, the truckmaking subsidiary of Renault, yesterday confirmed a recent union announcement that it would lose 1,348 jobs next year, out of its current workforce of 16,874. The group cited as reasons the deep recession in the European truck market and its strategy of improving productivity.

Hostile W. A. Deutsher bid for Siddons Ramset fits ITW's Asian ambitions

By Kevin Brown in Sydney

W. A. DEUTSHER, an Australian subsidiary of Illinois Tool Works (ITW), the US engineering group, yesterday said it would review all the operations of Siddons Ramset, the hardware and fasteners group, if its A$94m (US$64.8m) hostile takeover bid was successful.

Deutsher said in its formal takeover document that the offer would enable ITW to expand in south-east Asia and extend its Ramset businesses to Australia, New Zealand and the UK.

However, Siddons said both the ITW offer and a rival A$86m bid by Pacific BBA, a subsidiary of BBA, the UK motor components maker, significantly undervalued the company.

Siddons said it expected to publish an independent valuation of its assets before the end of the year.

Deutsher's offer document said ITW would try to optimise Siddons' Asian distribution network and expand its product range and technology skills.

Deutsher said no decision had been made about the future of Siddons' businesses or future employment levels.

The offer said the bid would be funded by drawing on an unused US$300m revolving credit facility with 13 US and international banks led by the First International Bank of Chicago.

Pacific BBA has not matched ITW's offer, but has reserved its right to increase its bid.

1/2 hour period ending	Provisional Price for Trading on 17.12.92 Pool purchase price £/MWh	Final Prices for Trading on 15.12.92 Pool purchase price £/MWh	Pool selling price £/MWh
0030	17.70	18.78	18.78
0100	23.03	22.99	24.85
0130	24.90	29.37	31.49
0200	24.90	29.37	31.43
0230	23.03	22.99	24.78
0300	23.03	22.99	24.78
0330	20.66	20.92	20.92
0400	19.98	20.78	20.78
0430	17.72	18.21	18.21
0500	17.72	18.21	18.21
0530	17.71	18.64	18.64
0600	17.71	18.64	18.64
0630	18.54	18.89	18.89
0700	22.44	20.80	20.80
0730	22.53	22.93	24.75
0800	22.78	22.93	24.74
0830	28.74	22.93	24.74
0900	28.74	22.93	24.73
0930	28.74	20.66	28.68
1000	28.74	26.73	28.64
1030	25.40	26.73	28.65
1100	23.33	23.36	25.10
1130	23.33	23.36	25.16
1200	25.40	26.73	28.65
1230	25.40	26.73	28.65
1300	25.40	26.73	28.65
1330	23.33	23.36	25.16
1400	25.40	26.72	28.66
1430	25.40	26.73	28.65
1500	23.33	23.37	25.17
1530	23.34	27.29	29.25
1600	27.37	28.62	30.92
1630	31.05	42.44	47.85
1700	39.92	58.84	63.03
1730	40.11	57.08	63.90
1800	37.60	46.10	51.15
1830	28.29	31.25	33.78
1900	27.12	28.74	30.70
1930	26.76	27.74	29.61
2000	26.74	27.63	29.40
2030	22.59	27.28	29.13
2100	22.63	22.93	24.69
2130	22.59	22.93	24.68
2200	22.59	22.93	24.70
2230	22.59	22.93	24.71
2300	18.45	21.15	21.15
2330	17.70	18.62	18.52
2400	17.70	18.28	18.28

French notes weakened by pressure on franc

By Sara Webb in London and Karen Zagor in New York

FRENCH government bonds closed lower yesterday as the French currency came under pressure and speculation increased that the Bank of France may be forced to raise its key interest rates shortly.

Money market rates continued to edge higher, with three-month money quoted at around 11.5 per cent yesterday. The rise in money market rates forced several French banks to raise their base lending rates from 9.45 per cent to 10.00 per cent yesterday afternoon, and led to more speculation over

GOVERNMENT BONDS

whether the Bank of France would be forced to raise its 5-to-10 day interest rate shortly to help support the franc.

Dealers said there was further speculation over whether the French currency would be devalued or allowed to float outside the European Exchange Rate Mechanism.

Short-dated bonds dropped during the day with the yield on the 8 per cent bond due 1994 moving from 8.40 per cent to 8.60 per cent. Longer-dated issues were less seriously hit, with the yield on the 8½ per cent bond due 2003 moving from 8.27 per cent to 8.29 per cent.

News that the prime minister, Mr Pierre Bérégovoy, was holding a press conference this morning led to speculation that an important announcement would be made concerning the franc.

However, dealers said the prime minister's office was later understood to have denied that there would be a statement on a devaluation, claiming that the press conference would simply provide an opportunity for the press to put questions to the prime minister.

"The worst possible scenario for the bond market is if we have no devaluation but higher interest rates", said Mr Julian Jessop, economist with Midland Montagu, referring to the possibility that the Bank of France may raise its 5-to-10 day rate.

Mr Dominique Barbet, economist at Paribas, said the decision by the commercial banks to raise their lending rates yesterday would "increase the political pressure in France to either devalue the franc or float the currency".

Today's planned auction of FFr14bn to FFr16bn of two and five-year notes may further depress prices at the short end of the yield curve, dealers said.

■ ITALIAN government bonds tumbled again at the opening following Tuesday's announcement that Mr Bettino Craxi, leader of Italy's Socialist Party, was under investigation for involvement in a political corruption scandal.

However, after an initial fall of about a point, the bond market recovered some of its losses.

The March futures contract, which opened at 92.93 and fell to a low of 92.00, ended the day at 92.20.

Elsewhere in Europe, German government bonds traded in a narrow range with the Liffe bund future contract edging up from 91.57 at the opening to a high of 91.60.

■ UK government bonds closed higher in thin trade helped by weaker-than-expected retail sales figures for November. Retail sales fell 0.1 per cent between October and November, after a 0.2 per cent increase the previous month.

In the cash market, the 10½ per cent gilt due 1997 edged up from 110$\frac{9}{32}$ to 110$\frac{13}{32}$, while the 9¾ per cent gilt due 2002 improved from 108$\frac{5}{32}$ to 108$\frac{15}{32}$.

■ A drop in the Tokyo stock market rekindled hopes of an easing in interest rates and helped to lift Japanese government bond prices yesterday, dealers said.

The Nikkei average index fell 212.03 to 17,268.71 and dealers said further falls in the stock market would revive hopes of a cut in the Official Discount Rate soon.

The yield on the benchmark No 145 issue opened at 4.62 per cent, the low of the day, and ended at 4.615 per cent.

■ US Treasury prices firmed yesterday morning on the back of economic news suggesting that the US economy is growing gradually.

At midsession, the Treasury's bellwether 30-year bond was $\frac{9}{32}$ higher at 102$\frac{9}{32}$, yielding 7.428 per cent, while the two-year note was up ⅛ to yield 4.658 per cent.

The market moved slightly on the release of housing starts for November, which rose 1.5 per cent while permits fell by 1.5 per cent.

In addition, industrial production rose 0.4 per cent in November. The figures added to the picture of a slowly improving economy.

FT FIXED INTEREST INDICES

	Dec 16	Dec 15	Dec 14	Dec 11	Dec 10	Year ago	High *	Low *
Govt Secs (UK)	93.57	93.50	93.71	93.84	93.64	87.28	95.54	85.11
Fixed Interest	108.61	108.75	109.01	108.94	108.86	97.47	110.28	97.15

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1992. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 110.28 (12/11/92), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	Dec 15	Dec 14	Dec 11	Dec 10	Dec 9
Gilt Edged Bargains	113.2	104.1	105.1	125.9	119.2
5-Day average	113.5	114.7	117.7	122.8	123.3

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		10.000	10/02	107.4249	+0.405	8.85	8.82	8.82
BELGIUM		8.750	06/02	104.7500	-	8.01	7.98	8.08
CANADA *		8.500	04/02	103.0000	+0.300	8.03	7.99	8.02
DENMARK		9.000	11/00	100.0000	-0.070	8.99	8.96	8.72
FRANCE	BTAN	8.500	03/97	100.8496	-0.036	8.23	8.13	8.11
	OAT	8.500	11/02	101.5150	-0.220	8.28	8.19	8.08
GERMANY		8.000	07/02	103.9800	+0.010	7.40	7.37	7.43
ITALY		12.000	05/02	92.5400	-0.225	13.86†	13.75	13.40
JAPAN	No 119	4.800	06/99	101.3068	+0.050	4.54	4.48	4.55
	No 145	5.500	03/02	105.7759	+0.102	4.61	4.59	4.64
NETHERLANDS		8.250	09/02	105.2400	+0.010	7.45	7.44	7.63
SPAIN		10.300	06/02	88.1500	-0.050	12.48	12.67	12.38
UK GILTS		10.000	11/96	106-26	-	7.35	7.34	7.19
		9.750	08/02	108-23	+3/32	8.41	8.36	8.32
		9.000	10/08	102-23	+3/32	8.67	8.64	8.73
US TREASURY *		6.375	08/02	97-08	+9/32	6.76	6.75	6.86
		7.625	11/22	102-09	+6/32	7.43	7.45	7.59
ECU (French Govt)		8.500	03/02	97.7450	-0.360	8.86	8.84	8.74

London closing, *New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Progress seen in world settlement systems says G30

By Richard Waters

THE settlement systems of stock markets around the world have come a long way since the 1987 crash first provoked concern about their effectiveness, according to a report issued yesterday by the Group of 30, the Washington-based think tank.

However, ambitious targets for the standardisation of settlement arrangements, set by G30 and due to be completed by the end of this year, have still not been met by many leading financial centres.

It was in March 1989 that a G30 steering committee, led by Mr John Reed, chairman of Citicorp, set its far-reaching targets. These included recommendations that all trades should be settled three days after they have taken place (known in the jargon as T+3), that each country should have a central securities depository and that settlement systems should achieve delivery-versus-payment (DVP) – that is, stocks and cash should be transferred simultaneously.

A target date of the end of 1992 was set for all three of these recommendations. So far, though, they have been met in full by only a handful of investment centres. Of 34 countries reporting in G30's latest annual survey of international settlement arrangements, for example, 10 have achieved T+3 or are in the process of changing to such a system, while nine are on shorter settlement cycles.

Attainment of other targets is more difficult to establish. Most countries claim to have achieved DVP, though this may not mean that cash and shares are transferred free of any claim or recourse. "Against that stern test, quite a lot will fall," says Mr David Holland, consultant to the G30 settlement initiative.

The group's latest status reports on settlement systems reveal both the advances that have been made in a number of countries this year, as well as some of the weaknesses that still exist. France and Sweden, for example, have both made the move to T+3, while Hong Kong has launched a centralised securities depositary based on book-entry transfer.

The UK remains among those that are further behind, though its planned paperless settlement system, Taurus, is tipped to be completed next year. The London stock exchange said yesterday that 100 listed companies had passed the amendments to their articles of association to transfer to Taurus. This signals growing acceptance of the system in the corporate world.

Others to lag on some aspects of the G30 recommendations include the US, which has yet to make the switch to T+3. Concern in some quarters of the securities industry about whether such a short settlement period is suited to retail investment has helped to stall the move.

In spite of this, the G30 can claim credit for focusing attention on the inadequacy of settlement arrangements and giving momentum to developments in a number of financial centres. Its involvement came after the 1987 crash, which brought home to the securities markets the extra risks involved with the slowness and inefficiency of settlement systems.

"The accounts of recent developments . . . make it quite clear that the momentum of reform is being maintained," say Lord Richardson of Duntisbourne, former governor of the Bank of England, and Mr Paul Volcker, former chairman of the Federal Reserve, in an introduction to the G30 report. "The general direction is unmistakable. Rolling settlement is replacing account settlement; settlement periods are shortening; securities are being immobilised or dematerialised in central securities depositories to facilitate transfers by book entry; and there is a particularly welcome emphasis on improving DVP procedures."

Clearance and Settlement Systems, Status Reports: Autumn 1992, G30, London or Washington DC. £40 or $70

Japan withholding tax expected to continue

By Emiko Terazono in Tokyo

THE Japanese government is likely to approve the continuation of withholding tax exemption for Japanese corporate bonds issued overseas.

The decision, expected to be finalised today by the ruling Liberal Democratic Party's Tax Research Commission, comes after strong lobbying from Japanese companies and securities houses, which feel the introduction of withholding tax would deter overseas investors.

The Keidanren, the federation of leading business organisations, the Federation of Electric Power Companies, and the International Primary Markets Association, lobbied against the abolition of the withholding tax exemption rule for non-resident investors, or Article 6 under the Special Taxation Measures Law. The special law is reviewed every two years, and will expire next March.

Japanese companies face a wave of equity-linked bond redemptions over the next two years, with maturities next year estimated at some Y10,000bn ($80.4bn). Most companies are expected to refinance these bonds through straight bonds.

Underwriting of foreign bonds has become an important source of income for Japanese securities houses, which face a sharp drop in profits due to the sluggish volumes on the Tokyo stock market. However, the main beneficiaries of the move will be Japanese institutional investors, who are the leading buyers of Japanese corporate bonds issued overseas.

Swiss issue coupons fall below 6%

By Brian Bollen

COUPONS on Swiss franc straight bonds fell below 6 per cent yesterday, with a SFr300m 10-year issue for Osterreichische Kontrollbank, a regular borrower in the sector.

Lead-manager Swiss Bank Corp admitted that the terms of the deal, with a coupon of

INTERNATIONAL BONDS

5.5 per cent, looked aggressive. The last time rates were at this level was nearly four years ago, when they were on the way up, it said.

The market is convinced that rates have further to fall, it said, as the Swiss franc benefits from a shift of sentiment caused by the currency turmoil in the European Exchange Rate Mechanism and other European countries.

The previous issue from Osterreichische Kontrollbank, in early October, for SFr300m over 10 years through SBC, had a coupon of 6.25 per cent.

In addition to the Austrian state guarantee, this latest issue could be helped by the general shortage of new paper at this time of the year, agreed bankers.

SBC surprisingly led a second deal on a day when most other houses reported little or no new issue activity.

Credit Local de France is raising SFr125m over seven years through a private placement, which SBC said was greeted less enthusiastically than the OKB bonds.

It carries a coupon of 5¾ per cent.

Elsewhere, the market expects the two separate Y10bn Euroyen issues for Daicel Chemical Industries to find their way back to Japan fairly quickly.

One issue is for four years, the other is for seven years.

● Moody's, the rating agency, has lowered the long-term ratings of Banque Nationale de Paris and Credit Lyonnais.

BNP's senior debt was cut to Aa1 from Aaa while Moody's cut the Credit Lyonnais rating to Aa3 from Aa2.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
YEN						
Daicel Chemical Industries	10bn	5.6	101.8	2000	1⅞/1.7%	Nomura Int.
Daicel Chemical Industries	10bn	5.1	101.5	1997	1⅝/1⅛%	Nomura Int.
SWISS FRANCS						
Osterreichische Kontrollbank	300	5.5	100.25	2002	-	Swiss Bank Corp.
Credit Local de France★★	125	5.75	102	2000	-	Swiss Bank Corp.

Final terms and non-callable. ★★Private placement.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 16

U.S. DOLLAR STRAIGHTS — Issued, Bid, Offer, Chg. day, Yield [illegible]

OTHER STRAIGHTS [illegible]

DEUTSCHE MARK STRAIGHTS [illegible]

FLOATING RATE NOTES [illegible]

SWISS FRANC STRAIGHTS [illegible]

CONVERTIBLE BONDS [illegible]

YEN STRAIGHTS [illegible]

* No information available - previous day's price
† Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	37	17	26
Other Fixed Interest	6	2	7
Commercial, Industrial	375	177	877
Financial & Property	134	86	578
Oil & Gas	14	12	59
Plantations	0	1	8
Mines	9	23	109
Others	20	50	46
Totals	595	368	1,710

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amt paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -	Net Div	Times Cov'd	Gross Yield	P/E Ratio
-	F.P.	-	122½	100	BTR Warrants 1997	120	+7½	-	-	-	-
§220	F.P.	-	247	231	Critchley Group	247	+4	L6.1	2.2	3.3	17.5
-	F.P.	-	103	100	For. & Col. PEP Inv Tst	102		F3.38	-	4.4	-
[illegible]											

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1992 High	1992 Low	Stock	Closing Price p	+ or -
25	P.P.	1/3	20	10	Property Trust	14	
240	Nil	27/1	45pm	43pm	Selan Healthcare	45pm	
465	Nil	19/12	145pm	120pm	Tibbett & Britten	144pm	

a Annualised dividend. b Figures based on prospectus estimates. g Assumed dividend and yield. q Earnings based on preliminary figures. u Forecast or estimated annualised dividend rate, cover based on previous year's earnings. x Ex-dividend. F Dividend and yield based on prospectus or other official estimates for 1992-93. H Dividend and yield based on prospectus or other official estimates for 1993. L Estimated annualised dividend, cover and p/e based on latest annual earnings. R Dividend and yield based on prospectus or other official estimates for 1992. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ‡ Issued by way of rights. † Introduction. § Placing price. †† Reintroduction. ¶ Unlisted securities market. ‡ Issued in connection with reorganisation, merger or takeover. pm Price at a premium.

TRADITIONAL OPTIONS

● First Dealings Dec 7
● Last Dealings Dec 18
● Last Declarations March 11
● For settlement March 22

3-month call rate indications are shown in Saturday editions.

Calls in: Albert Fisher, Amber Day, ASDA, Chubb, Haemocell, Hillsdown, Lloyds Chemists, Premier Cons., Ratners, Spring Ram, Tadpole Tech., Tepnel Diagnostics and Thames TV. Put & Call: ASDA.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

December 16 Total Contracts 29,456
Calls 22,498 Puts 6,958
FT-SE Index Calls 7,357 Puts 1,482
Euro FT-SE Calls 448 Puts 213
*Underlying security price. † Long dated expiry months
Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

PRICE INDICES

		Wed Dec 16	Day's change %	Tue Dec 15	Accrued interest	xd adj. 1992 to date
	British Government					
1	Up to 5 years (24)	127.54	+0.02	127.94	2.02	12.02
2	5-15 years (23)	144.46	+0.12	144.68	1.69	13.51
3	Over 15 years (8)	152.31	+0.13	152.11	2.31	11.89
4	Irredeemables (6)	170.38	+0.25	169.96	1.63	13.68
5	All stocks (61)	141.23	+0.09	141.47	1.91	13.03
	Index-Linked					
6	Up to 5 years (2)	183.15	-0.01	183.16	0.81	3.68
7	Over 5 years (11)	162.22	-0.19	162.53	0.92	4.56
8	All stocks (13)	163.82	-0.17	164.09	0.90	4.42
9	Debs & Loans (62)	122.89	-0.01	122.91	2.74	11.13

AVERAGE GROSS REDEMPTION YIELDS

			Wed Dec 16	Tue Dec 15	Year ago (approx.)
	British Government				
1	Low	5 years	7.30	7.36	8.72
2	Coupons	15 years	8.26	8.28	9.35
3	(0%-7¾%)	20 years	8.51	8.51	9.35
4	Medium	5 years	7.62	7.62	9.69
5	Coupons	15 years	8.69	8.70	9.46
6	(8%-10¾%)	20 years	8.84	8.86	9.42
7	High	5 years	7.86	7.87	9.92
8	Coupons	15 years	8.97	9.01	9.52
9	(11%-)	20 years	9.05	9.09	9.45
10	Irredeemables (Flat Yield)		8.92	8.94	9.54
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	2.56	2.55	3.99
12	Inflation rate 5%	Over 5 yrs.	3.97	3.96	4.36
13	Inflation rate 10%	Up to 5 yrs.	1.69	1.68	3.31
14	Inflation rate 10%	Over 5 yrs.	3.77	3.76	4.17
15	Debs &	5 years	9.00	8.99	11.15
16	Loans	15 years	9.95	9.94	10.97
17		25 years	10.14	10.13	10.80

COMPANY NEWS: UK

Two regional electricity companies report profit increases of more than 50%

Northern rises to £39.5m and cuts tariffs

By Paul Taylor

NORTHERN Electric, the Newcastle-based electricity company, yesterday became the first of the regional groups to announce a reduction in electricity tariffs for its 1.4m customers.

The move came as the group reported a better-than-expected 52 per cent increase in pre-tax profits for the six months to September 30 and raised its interim dividend to 6.3p (5.55p).

Northern's electricity tariffs will fall by an average of 2.7 per cent from the new year, with the domestic tariff cut by 3 per cent.

Mr David Morris, chairman, rejected suggestions that the tariff reduction was designed to head off pressure from Offer, the industry regulator. Instead, he said the price cuts represented "the first fruits of our sound management" which were being shared between customers and shareholders. He said the "encouraging performance" in the first half "has given us the confidence and security to pass on the benefits."

Interim pre-tax profits increased from £26m to £39.5m on turnover 9.5 per cent ahead at £394m (£360m) despite overall flat electricity unit sales. Earnings per share increased by 48 per cent to 23.8p.

The year-on-year profit increase was mainly due to the absence of the "unusually high" electricity purchase costs from generators in the first half last year. However, Mr Morris said the group's underlying profit growth "remains in line with our expectations for the full year."

In the core electricity distribution business sales to domestic and commercial customers rose by 1.5 per cent and 2.2 per cent respectively. However, sales to industrial customers fell by 2.6 per cent, mainly in the mining and chemicals sectors, partly offset by modest growth in the engineering and manufacturing sectors. Operating profit in the distribution business improved to £43.6m despite a reduction in charges for use of the distribution system in April.

● **COMMENT**

Northern's share price has begun to reflect the increased confidence investors now have in the new senior management team. Costs continue to be cut in real terms, its investment in the gas-fired power station being built at Wilton on Teesside looks sensible, and the balance sheet is in good shape with the £49.2m net cash inflow in the first half reducing debt to a modest £10m and gearing to 2.5 per cent – although this will rise at the year end. The biggest risk is that Northern will catch the regulator's eye. However, its return on assets is not out of line and a combination of tariff cuts and its enviable reputation for service performance should help keep customers sweet. Pre-tax profits this year could reach £115m-£120m, with earnings of 70p a share. Given the run-up in the share price, to 453p yesterday, this stock is not a bargain, but is still a buy.

Distribution side takes Seeboard to £9.2m

By David Lascelles, Resources Editor

SEEBOARD, the distributor for the south-east of England, yesterday produced one of the strongest results of the electricity season with a 53 per cent rise in pre-tax profits and a 14 per cent dividend increase.

Sir Keith Stuart, the newly-appointed chairman, described the results as "excellent," but stressed that Seeboard's domestic customers paid the lowest electricity prices in England and Wales, according to the industry regulator.

Pre-tax profits were £9.2m in the six months to September 30, up from £6m. This was equivalent to earnings per share of 5.1p (3.5p). The interim dividend is increased from 5p to 5.7p.

The progress was achieved despite a 1.8 per cent fall in the number of electricity units sold.

This was due to a sharp decrease in industrial demand, mainly in the paper and cement industries. Adjusted for the weather, though, there was underlying growth in overall demand. Turnover increased 6 per cent to £524m (£495m).

Group operating profit totalled £8.6m (£6.8m). Distribution contributed £37.3m, but the supply business lost £29.2m, because of the front-loading of costs in the first half. This was better than last year, however, and the full-year result is expected to be in the black.

Other businesses earned £500,000. The retailing business incurred a small loss in a tough market. The contracting business was in profit, and Southern Gas, the new gas joint venture, is expected to make a profit in its first year.

The bottom line was also helped by further cost reductions. Over the six months 180 jobs have been shed, against a long-term target of more than 500. Tighter control over cash flow has also reduced gearing to zero.

● **COMMENT**

The market was unexcited by the large increases. If anything, they fell slightly short of expectations. But the results showed that there is plenty of scope for improvement in costs and balance sheet management. Both these areas must deliver the goods if overall electricity demand remains slack and next year's tariff increases are slim.

There is a regulatory risk attached to large earnings and dividend increases. But this seems small in the case of Seeboard, which has high dividend cover and has been careful to share its good fortune with its customers through its current £20m rebate. The shares gained 7p to 440p, ending with a yield of 5.9 per cent, at the low end of the sector range.

Owners Abroad blames slide on one-off factors

By Richard Gourlay

THE FALL in profits last year at Owners Abroad, the UK's second largest tour operator, was "a result of one-off factors" which would not be repeated, according to Mr Howard Klein, chairman.

Owners Abroad, which yesterday announced a tie-up with Thomas Cook Group and its parent, LTU Group of Germany, reported pre-tax profits in the year to October 1992 down from £32m to £25m on sales up 20 per cent at £772m.

Fully diluted earnings per share fell from 12.6p to 8.6p but the company is increasing its total dividend from 3.2p to 3.5p via a final of 2.52p.

Mr Klein said there was every reason to expect that Owners Abroad would resume profitability at a "normal clip".

The past year had been unusual for a number of reasons.

The group had misjudged the pricing in its first brochures for the 1992 summer holidays which came out before last Christmas.

As Mr Christopher Rodrigues, chief executive of Thomas Cook Group and Owners new partner, said: "This last year they [Owners Abroad] did goof. People picked up the brochure in the shops and put it straight down again."

In addition, Owners put on extra capacity, not only to take advantage of the collapse of ILG in March last year but also because of a belief that recovery was on its way.

Owners had tried to increase pricing and margins and lost out in the pre-Christmas period, Mr Klein said.

On current trading, Mr Klein said that the demand for holidays was likely to be the same as this year or marginally down on this year.

Bookings of Owners' holidays were up 18 per cent on the same time last year even though the industry as whole was still down.

The company had also taken steps to cut the cost base by closing seven offices which would lead to cost savings of about £4.5m in 1993.

A look at the life and times of an empire builder

Hillsdown chief to quit. **Maggie Urry** reports

HILLSDOWN Holdings' share price rose yesterday after it was announced that Sir Harry Solomon was quitting as chairman.

"That says it all, doesn't it," laughs Sir Harry, an irrepressibly good humoured and self-effacing man, who is anxious to be reassured that he is doing the right thing.

He decided some time ago that at the age of 55 and after 17 years in his second career, it was the right time personally to move on and the right time for the company to have a new chairman.

That role will be taken from next April's annual meeting by Sir John Nott, the former politician and merchant banker.

Sir Harry, knighted in 1991, says there has been no pressure from shareholders to leave. However, some in the stock market, have been seeking more focus and less unpredictability from Hillsdown.

The group's earnings per share fell in 1990 and 1991, and are expected to fall again this year. The shares reached a low in September, when the yield rose to 14 per cent despite assurances that the dividend would be held.

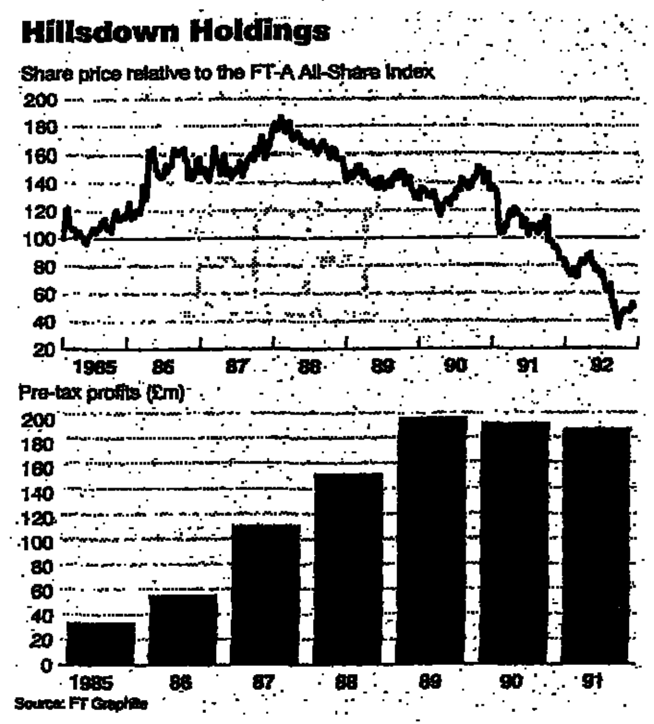
It was a different story when Hillsdown floated in 1985. Then acquisitive companies were fashionable, and chairmen found themselves the subjects of personality cults. Unlike some of the stars of the 1980s who courted publicity, Sir Harry is a rather private man, refusing, for example, to have his photograph taken.

His first career, which lasted 15 years, was as a solicitor. He started as a criminal lawyer. "I defended a few murderers," he admits. Some were cleared, others were jailed. "And some of them still send me Christmas cards," he says.

But it was in 1966 that the seeds of Hillsdown were sown, though the company was not founded until 1975. In 1966 Sir Harry's wife was expecting their first child. She made friends with another woman at her ante-natal class, and soon the two husbands met.

The other husband was David Thompson, who ran a family meat business, and he became a client of Sir Harry's whose law practice had moved by then towards commercial and property work. By 1975 Sir Harry had had enough of being a solicitor and the two decided to set up Hillsdown – the name also of Mr Thompson's house.

The business did not go far until the early 1980s when "there were a lot of opportunities around, a bit like now," says Sir Harry.



Hillsdown did deal after deal, buying Lockwoods, the canning business from the receiver in 1981, Buxted chickens from Imperial Group in 1982, buying back Mr Thompson's family meat company from Imperial, the Smedley canning company in 1983 and many more.

As one analyst says, "they were buying very cheaply, on cheap bank debt, and leveraging on rising asset values." That was the period Sir Harry now looks back on as the best of times. "When we were doing some of the first deals, when everyone was tremendously enthusiastic, things were coming right, the management style was beginning to work."

By 1985 the group needed more capital to expand, and floated on the stock market. Its offer was nine times oversubscribed. In the same year it bid for Christie-Tyler, a furniture group, and two years later bought Fairview, a housebuilder. More deals followed, such as the purchase in 1989 of Premier Brands, the Typhoo tea group.

Shares were issued to fund the expansion, and Mr Thompson, who had held the bulk of the original Hillsdown shares, left the business and sold shares too. The Premier Brands deal, for instance, was financed by a £110m placing.

As the 1980s turned to the 1990s aggressive expansion went out of fashion, and Hillsdown found itself struggling with tougher trading conditions, and a less enthusiastic shareholder following.

It was then that Sir Harry's worst time came. In January 1991 bear raiders circulated rumours about the group and the shares plunged.

The market's fear of Hillsdown's ability to shock gained strength after the company sprung a rights issue in September last year, a surprise from which the share price has yet to recover.

Stock market analysts think that the company may never regain the premium rating it enjoyed after it floated. But they believe the rating can recover if the Hillsdown empire, which has extended to North America and Europe, becomes focused; if the swings in profitability in divisions such as poultry can be ironed out; and if the business can be shifted towards its higher margin activities.

Interests such as poultry, eggs and red meat, at the commodity end of the food industry, have suffered in the recession but the food processing businesses – such as Premier Brands and prepared meals – have fared better.

Sir Harry thinks "change is good for one". But so far he has made no firm plans for his third career, remaining fully committed to Hillsdown until next April. But he will be going to Arsenal's ground on Saturday to see Middlesbrough, his home team, playing.

And whatever else he does – jogging, trekking, playing tennis or collecting historical autographed documents – one thing he will not do. "I will not be pruning roses" he promises.

MTM share price halves as debt limit is breached

By Richard Gourlay

MTM, the fine chemicals company which has struggled since its share price collapsed early this year, yesterday said it had breached its borrowing limits under its articles.

The group – which has more than £100m of debt and net assets worth less than half its called-up share capital – has also been forced to make unspecified further provisions.

The share price halved from 31p to 15p yesterday.

High interest charges and professional fees on the ongoing capital restructuring, combined with poor trading, had severely depleted the capital base, MTM said.

In spite of this gloomy picture, banks have granted a three-month extension to the standstill agreement which is due to expire at the end of the month.

Company advisers said efforts to raise fresh share capital appeared to have been unsuccessful and the banks were considering swapping some of their debt for equity.

The group has failed to secure the sale of two main assets which would help reduce debt.

The company said negotiations were at an advanced stage to sell the UK Agro chemical business's three sites and the sale of Columbus Ohio, a supplier of pharmaceutical ingredients to the US market.

The sale of another four businesses was under way and was expected to raise £15m in addition to the £5m proceeds from the disposal of five businesses in September.

"It has not been a problem of finding buyers," said the company. "It has been a matter of completing on those transactions."

McCarthy loss grows to £19m

By Peggy Hollinger

SHARES IN McCarthy & Stone fell 21 per cent yesterday from 28p to 22p as the retirement home builder announced its third year of deepening losses and warned that it would be unable to pay a dividend for at least two years.

The pre-tax loss of £19m, against £16.9m last time, was aggravated by exceptional charges of £10.3m (£5m). This included a £5.4m write-down on properties and £4.9m rationalisation costs. These charges offset lower interest payments of £9.8m (£13.9m).

Sales for the year to August 31 were down from £73.1m to £71.4m. At the operating level, profits fell from £2m to £1.1m.

Mr John Gray, joint managing director, denied that the group was in critical condition. He pointed to the announcement that McCarthy had just completed a refinancing for a credit facility of £83m. Group debt at the year-end was £60.6m (£58.1m).

During the year, McCarthy sold 938 homes, just one more than in 1991. The average selling price fell from £69,100 to £67,000. About 37 per cent of sales were at a discount to the listing price.

McCarthy took a £1.2m extraordinary charge for the phased closure of its Quadrant second homes business in France.

Net operating assets overseas stood at £14.1m. The intention was to reduce this and no further investment would be made overseas.

Losses per share deepened to 29.3p (21.9p), while net asset value fell by 28 per cent to 81p. The absence of a final dividend leaves the total at 0.5p (1p).

BLP employees stake rises to 48.3% after tender offer

By Matthew Curtin

EMPLOYEES of BLP Group have increased their stake in the troubled USM-quoted wood laminates supplier to 48.3 per cent through a tender offer, the company announced yesterday.

The mandatory offer was triggered in November when the Takeover Panel ruled that BLP's Employee Share Ownership Plan was acting in concert with directors and a minority shareholder.

The offer has raised their combined holding from 45 per cent to 69 per cent, making the company invulnerable to hostile takeover.

BLP was listed in 1987 and its shares peaked that year at 821p, valuing it at £48m. The stock has been on the decline since with the company wracked by ill-fated takeovers and other problems. It closed last night at 28p, just above the Esop's offer price and valuing the group at £1.9m compared with net assets of £8.69m.

The concert party's stake is now seven times the maximum size recommended for Esops earlier this year by the Association of British Insurers speaking on behalf of a powerful group of institutional shareholders.

BLP's Esop is handled by Kleinwort Benson, the merchant bank, acting as the trustee through BLP (Jersey). The Esop has built up its stake in the company over the past two years without consultation of the employees.

The company has lent it most of the money for the share purchases including funds for the current offer. Mr Malcolm Cohen, BLP's chairman, said majority ownership by the employees would not affect the running of the company.

There are no rules governing the relationship between staff and an Esop, they have no say over the investment decisions by the body set up to run it, and there are no regulations preventing a company from using an Esop as an anti-takeover device, the ABI said.

When BLP set up its Esop in 1990, the company believed employees would hold less than 10 per cent of the group's shares and only as an incentive scheme, Mr Cohen said.

"The Esop was run independently of BLP, by independent directors, receiving independent advice."

Mr Cohen said it was fortuitous that after a two-year fall in the company's share price, such a large stake was held by the trust, thereby affording "security" against any potential takeover.

Aegis issues warning and plans further cost cuts

By Gary Mead, Marketing Correspondent

AEGIS, the media planning and buying group, said that it would pass its final dividend for 1992, following a review of its financial position and the likelihood of European trading conditions remaining difficult in 1993.

It also stated that it expected "trading profits both in the current year and in 1993 to be below the level of 1991".

Aegis plans to reduce annual operating costs by £17m in 1993, in addition to cuts of £15m announced earlier this year. Staff levels will shrink from 1,900 to 1,650 and in a number of European countries offices will be consolidated.

Operating costs in 1991 were £55m, and forecasts for 1992 were £50m. For 1993 analysts are now forecasting costs of about £30m.

The company said the cost-cutting was a necessary step in the light of the probable passing into law of French legislative proposals known as the Loi Sapin.

In the advertising sector the Loi Sapin threatens to curtail the levels of commission obtained by media buyers from their trading in advertising space with media owners.

When details of the Loi Sapin leaked in June, Aegis dismissed suggestions that it would severely affect its business. However, other agencies have predicted revenue losses of up to 25 per cent, a figure Aegis now accepts is not exaggerated.

Analysts expect that pre-tax profits for 1992 could fall to £40m (£55.1m).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding dividend	Total for year	Total last year
Alvis	fin	0.5	Apr 2	1.7	1	2.2
Baggeridge Brick	fin	2.375	Feb 10	2.375	3.125	3.125
Boxbuild §	int	1	Feb 1	1	-	2.7
Bristol Water	int	10.3	Feb 10	9.3	-	28
Bulmer (HP)	int	3.75	Feb 22	3.45	-	9
Chemring	fin	21.72	Jan 29	19.75	32.62	29.65
Daily Mail Trust	fin	96	Feb 19	90	130	119
Northern Elect	int	6.3	Mar 23	5.55	-	18.55
Northern Inds	int	2	Jan 29	3.5	-	8.5
Owners Abroad	fin	2.52	Apr 15	2.2925	3.5	3.2
Seeboard	int	5.7	Feb 22	5	-	17.25

Dividends shown pence per share net except where otherwise stated. §On increased capital. ‡USM stock.

Marketing expenditure on main cider brands pays off

Bulmer expands 18% to £10.7m

By Roland Rudd

HP BULMER Holdings, the cider and soft drinks maker, reported an 18 per cent increase in pre-tax profits for the half year to October 23 on the back of a strong performance from its main cider brands.

Profits rose from £9.07m to £10.7m on sales of £131m (£116m).

The increase reflected Bulmer's strategy of marketing its main cider brands, Strongbow and Woodpecker, and sharply higher operating profits of £740m (£478m) from the Australian cider business, which has a near monopoly on the country's cider market.

In the UK, where operating profits rose from £9.65m to £11.6m, the cider market grew by 7 per cent in spite of a decline in the drinks market as a whole.

Mr John Rudgard, Bulmer's chief executive, said he was confident that the cider market would continue to expand.

He welcomed the decision from main rival, Taunton Cider, to go public, which he predicted would further expand the market.

Cidrerie Stassen, the recently acquired Belgian branded company, would export its own cider to the UK while facilitating the import of Strongbow to the Continent.

In spite of its £47,000 loss, mainly due to start-up costs, Mr Rudgard was confident that the Belgian company would contribute profits by the year end.

Lower demand in Russia for Pectin, a gelling agent, led to a decline in Pectin operating profits from £1.1m to £584,000.

Capital expenditure for the year to April 24 is expected to increase by £1m to £13.3m.

Net debt is expected to have risen from £17m to £25m, representing gearing of between 35 and 40 per cent.

Earnings per share in the half-year rose from 10.8p to 12.99p.

The interim dividend is increased from 3.45p to 3.75p.

● **COMMENT**

The big increase in marketing its brands, such as Woodpecker and Strongbow, which depressed profits in 1989, is now paying off. The marketing spend is running at about £12m a year – more than double what it was four years ago. A 20 per cent increase in the sales of Orangina justifies its decision to broaden activities into soft drinks. With forecast pre-tax profits of £19m, giving earnings per share of 22.8, the shares – up 9p to 400p – are on a prospective multiple of 17.5. Whether that premium to the market is justified depends on one's view of the cider market. If its growth continues unabated then Bulmers's shares are still good value. If the market slows down, as it did in the mid eighties, the shares may look expensive.

Provisions push Daily Mail down

By Raymond Snoddy

THE DAILY Mail and General Trust yesterday announced a 28 per cent increase in profit before exceptional items.

Pre-tax profits for the year to September 30, however, fell from £47.7m to £43.8m. The main factor pulling down the pre-tax line was a revaluation of the company's London investment properties.

A total property provision of £26.5m was made, although this was partly offset by profits from the sale of a wharf in Purfleet and the disposal of 1.3m Reuter shares. The exceptional loss totalled £15.2m.

The company yesterday described the performance of the group as "satisfactory" and said the national newspaper division – the Daily Mail, Mail on Sunday and the Evening Standard – had achieved record levels of circulation revenue and display advertising revenue. Classified advertising had been weaker, particularly at the Evening Standard.

The company proposes a final dividend of 98p, making a total for the year of 130p against 119p.

Turnover amounted to £663.8m (£644.1m), with newspapers, regional as well as national, ahead from £525.3m to £559.2m. Trading profits from newspapers rose from £59.9m to £70.6m.

Mr Derek Terrington, publishing analyst at stockbrokers Kleinwort Benson, said: "In this kind of market it goes back to basics and the strength of the titles."

Mr Terrington, who is forecasting pre-tax profits of £73m in 1993, believes that the period of fluctuations caused by exceptional losses or profits could be coming to an end.

The group's regional newspapers also improved their position mainly because of close control of costs.

Associated interests declined as a result of lower profits at the Bristol Evening Post and Whittle Communications in the US. There were also start up costs for stakes in two new broadcasting ventures, Westcountry Television and Teletext UK.

Redundancy costs cut Alvis to £1.1m and final is lowered

By Andrew Bolger

ALVIS, the defence contractor, yesterday reported a drop in pre-tax profits from £3.83m to £1.13m for the year ended September 30 1992.

The final dividend is cut from 1.7p to 0.5p.

The company, formerly United Scientific Holdings, said redundancy and restructuring costs at its Coventry plant were mainly responsible for the drop in profits.

Alvis announced in October that it was cutting 230 jobs from a total of 750 at its Alvis Industries factory, mainly because of a drop in demand from the Ministry of Defence for armoured vehicles and spares.

The company took an exceptional charge of £4.95m and also wrote down by £2.5m the value of stock carried forward from previous years.

Sales fell from £114.2m to £92.4m in 1991-92. The group said its profit before tax and exceptional items of £6.4m was 29 per higher.

The group said its electro-optical companies increased combined pre-tax profits by 49 per cent and ended the year with a larger combined order book.

Alvis Industries, which now includes Self-Changing Gears (SCG) and United Scientific Industries, barely broke even at the operating level, compared with operating profits of £5m last time.

The group said this was because of lower MoD orders, reduced margins, the stock write-down and operational problems, which followed the relocation of the SCG business to the Coventry site.

Losses per share amounted to 5.5p, compared with 0.3p last time.

The reduced final leaves a total for the year of 1p (2.2p).

● **COMMENT**

Different name - same old problems. Life is not easy if the Ministry of Defence is your biggest single customer, as these figures amply testify. Nevertheless, the shares advanced 5p to close at 19p, suggesting that the market had overdone the gloom in marking Alvis down from 62p in February. That sort of slide suggests a company which is about to go bust, and there are no such signs at Alvis – even if the road to recovery remains long and winding. The electro-optical businesses are sound and the problems at Coventry are being addressed, although the order outlook is uncertain. A market value of only £10.6m might attract a predator – and a spell of solid trading could see the shares bounce back – but even speculators should be able to find less troubled sectors to fish in.

Amstrad directors sell stakes

By Paul Taylor

TWO OF Amstrad directors sold their entire equity holdings in the consumer electronics group on Tuesday for 23½p-a-share, less than a week after shareholders rejected Mr Alan Sugar's 30p-a-share buy-back bid for the company he founded.

Mr Malcolm Miller, sales and marketing director, sold 714,000 shares to raise £165,112. Mr Robert Watkins, technical director, sold 563,000 shares, raising £130,309.

Amstrad, which has 581m issued shares, reported the directors' action, but declined any further comment.

Mr Sugar, who has a personal 35 per cent equity stake, warned shareholders during his battle to take Amstrad private again that the share price might fall sharply if they rejected his bid.

However, since Amstrad's 31,000 shareholders rejected his offer the shares have traded in a narrow range around 25p. Yesterday, after gaining 1p to 26p the price slipped following the sales' disclosure, but pulled back to close just ½p lower at 24½p.

NEWS DIGEST

Baggeridge drops 28% to £1.82m

BAGGERIDGE Brick reported a 28 per cent plunge in pre-tax profits to £1.82m in the year ended September 30.

Turnover fell from £28.4m to £26.3m, but Mr Martyn Haines, finance director, said the group had not cut production and had maintained market share.

Sales were hit by increased pressure on prices, reflecting sluggish demand combined with industry over-capacity.

Operating profit fell to £3.16m (£4.11m). The decline in the brick-making business was offset partially by a £1.2m contribution from its landsource operation.

Earnings per share fell to 3.03p (4.84p).

The proposed final dividend of 2.375p leaves the total for the year at 3.125p.

Bristol Water 33% up at £3.4m

Strict controls over costs enabled Bristol Water Holdings to achieve a 33 per cent increase in pre-tax profits to £3.43m for the six months ended September 30.

The interim dividend is lifted by 1p to 10.3p from earnings of 44p (33.5p).

Turnover improved from £23.5m to £26.1m. Sir John Wills, chairman, said the 11 per cent advance reflected the 7.3 per cent increase in charges agreed with Ofwat after a voluntary abatement by the group of 1.1 per cent from the maximum charges allowed.

Capital expenditure during the first half rose to £8m (£7m). A figure of about £16m is earmarked for the full year with similar levels in each of the following two years.

Dartmoor net asset value declines

Dartmoor Investment Trust had a net asset value of 74.2p per share at October 31 compared with 117.4p a year earlier.

Net revenue for the six months fell slightly, from £966,000 to £919,000, to leave earnings per share at 4.02p (4.83p).

A second interim dividend of 2.5p (2.4p) is declared, making 5p (4.8p) so far.

Bexbuild shows decline to £66,000

Profits of Bexbuild Developments, the USM-quoted commercial property investor and trader, fell from £138,000 to £66,000 pre-tax over the six months ended September 30.

The figure included a £19,000 surplus on the sale of an investment property. Turnover amounted to £908,000 (£944,000).

The interim dividend is held at 1p and is paid from earnings of 1.1p (2.1p).

Northern Investors net assets at 289.4p

Northern Investors, the Newcastle upon Tyne-based venture capital group, reported a fully diluted net asset value of 284.4p per share as at September 30.

The figure showed a marginal decline on the 289.4p of six months earlier but an increase on the 276.8p at end-September 1991.

Mr Robert Dickinson, chairman, said the group's investments had shown "encouraging resilience" in the economic downturn. Three new investments were completed during the interim period, involving a total commitment of £593,000.

The pre-tax surplus fell to £206,000 (£282,000) reflecting reduced investment income of £419,000 (£491,000) following the decision to move some resources from cash into longer term investments at the end of 1991.

Earnings per share emerged at 4p (5.4p) and the interim dividend is cut from 3.5p to 2p.

Chemring advance lifts shares 55p

By Peter Pearse

THE CITY responded favourably to Chemring Group's announcement of a 10.5 per cent rise in pre-tax profits from £4.72m to £5.21m in the year to September 30. The shares climbed by 55p to 883p.

Mr Philip Billington, chairman since January 1 of this industrial holding company with interests in the defence, marine, leisure, environmental and engineering markets, said that the group aimed to "increase its level of civil business to approximately 60 per cent of overall turnover by 1996". Turnover rose by 10 per cent to £37.9m (£34.5m).

This rebalancing was at the behest of the City, and he said it would probably be achieved via a large acquisition in marine, aviation or engineering.

However, he said he was irritated by the tendency to lump Chemring with defence companies like Vickers. "We don't suffer like the hardware companies do. Our products come out of revenue spend not capital spend."

At present, the defence business accounts for about 53 per cent of turnover.

Mr Billington said there was currently a record number of ships being built worldwide. That had helped the commercial marine business to grow, though the leisure marine side had declined.

Trials for Protox, the secondary sewage treatment process, should be completed by April, he said. He hoped to sell the plant and further, to sell the by-product granules into the agricultural and horticultural markets.

The group is proposing a share split to increase the liquidity in the market for the shares. Three 5p shares will be issued for every 5p share held and this will be achieved by the capitalisation of about £600,000 of the share premium account.

A recommended final dividend of 21.72p (19.75p) will make a total of 32.62p (29.65p), payable from unchanged earnings of 68.6p per share.

Harrisons in joint venture talks with Akzo

By Peggy Hollinger

Harrisons & Crosfield is in preliminary talks with Akzo of the Netherlands which could lead to the creation of Europe's second-largest polymer additive manufacturer after Ciba Geigy.

The companies announced yesterday that they were investigating the possibility of merging their additives businesses in a joint venture.

The additives are used in PVC manufacturing for hard plastics such as window frames and piping.

Both companies stressed that the talks were at a very early stage. Any decision was not likely to be made until the spring. The venture would have sales of more than £200m and employ some 1,100 people in 12 sites throughout Europe and the US.

EC ministers strive to tie up farm reform loose ends

By David Gardner in Brussels

EUROPEAN COMMUNITY agriculture ministers were striving last night to tie up a package of "loose-ends" from this year's reform of the common agricultural policy, combined with a series of measures which have to be in place for the internal market starting on January 1.

The complex, end-of-year compromise package – which in parts reads like a letter to Santa Claus from ministers seeking presents for farmers unhappy about CAP reform and cuts being agreed under the Uruguay Round world trade reform – was last night the subject of intense bilateral negotiations between the member states, and the European Commission and current UK presidency of the EC.

Decisions looked unlikely until today at the earliest, but two developments may inject some urgency into the farm ministers' habitually drawn-out horse-trading.

According to senior commission officials, proposals on banana tariffs, the "green currency" regime, and compensation to Spain and Portugal for giving up transitional protection they won for their farmers when they joined the EC in 1986, could be put to other ministers for decision if the farm council procrastinates further.

The 12 meet today to finalise Single Market rules, and on Monday EC foreign ministers are due to meet.

In this extreme case, the extensive list of unsettled national demands – seen by some agriculture ministers as a vital sop to farmers for accepting internal and internationally agreed cutbacks on price, output and exports – would be put aside and lose purchase on future negotiations.

Second, the undertakings the EC agreed last month with the US within the farm trade chapter of the Uruguay Round were yesterday handed in to the General Agreement on Tariffs and Trade in Geneva. France had on Tuesday made a further attempt to hold up the Geneva negotiations to conclude the Uruguay Round, and its failure was underlined by delivery of these "schedules".

The Uruguay Round talks in the 14 other trade sectors earmarked for liberalisation are now expected to gather momentum, locking in the farm deal. Moreover, senior EC officials say there is an emerging majority behind the EC-US farm trade deal. They say that more than half the 12 are willing to defend it, lest the EC be forced into further concessions by the other 95 signatories to the Gatt.

Among the most problematic issues in dispute last night was bananas. A common regime on bananas is required to complete the single market. But Gatt also requires that the EC replaces blanket protection for banana growers in outlying community territories and former European colonies by tariffs.

The commission originally wanted to put a quota on far cheaper Central American, or "dollar" bananas, to protect these growers. The "dollar" zone already supplies 60 per cent of the 3.4m tonnes of the fruit consumed in the EC, and too free a market would wipe out high-cost EC suppliers from the Canary Islands to the Caribbean.

The compromise fixes a 1.9m tonnes annual quota for the Latin suppliers, with a 20 per cent tariff of Ecu100 per tonne. Above this quota – part of which they would have to share with EC suppliers – they would have to pay an Ecu700 (£560) tariff per tonne.

The 12 were polarised last night between France, which wants the low tariff quota limited to 1.4m tonnes with an Ecu800 surcharge on each extra tonne, and Germany, the EC's main banana consumer, almost entirely from the dollar area, which was holding out for a 2.4m tonnes annual quota, with a maximum tariff of Ecu250 on additional imports.

Smelters feel 'green' squeeze

By Kenneth Gooding, Mining Correspondent

ENVIRONMENTAL pressures are causing a structural change in the metals smelting industry – particularly in copper and zinc smelting – that will force smelters to raise prices charged to the mining industry by 20 to 25 per cent, according to Mr Thomas Baack, chief economist at Metallgesellschaft, the German metals and mining group.

He suggests that in the short term copper miners can afford to absorb the increase in smelter treatment charges but this is not the case for the zinc miners. And, "in the medium to longer term, the higher processing costs will have to be reflected in [metal] prices," warns Mr Baack.

He says, in MG's latest metals markets survey, that smelters are suffering "irreversible" changes to their revenues and costs, changes directly or indirectly related to pollution control measures.

To comply with present standards, smelters need to spend up to a third of their capital investment and operating costs on control measures, he points out.

At the same time, some revenue-producing by-products of the smelting process, such as sulphuric acid and cadmium, are threatened by present environmental trends. Smelters, forced to capture more sulphur from ores, are producing much more sulphuric acid, yet demand for the acid has fallen – also because of environmental factors.

Mr Baack says it is possible that before long smelters will have to pay heavily to dispose of sulphuric acid.

He points out that the price of cadmium has also fallen so low that it is hardly worth recovering during zinc smelting. "Since the use of cadmium is being further restricted because of its toxicity, it is unlikely that the market will recover," Mr Baack adds.

"As a consequence of this development, higher smelting charges are unavoidable. . . Surcharges of between 20 and 25 per cent can be reckoned on."

Bagri sees wider horizons for LME

The incoming chairman is eager to enhance the London Metal Exchange's international status, writes **Kenneth Gooding**

MR RAJ Bagri takes over as chairman of the London Metal Exchange in January at a time when several important issues have to be resolved – among them the question of whether the time is ripe for the exchange to move aggressively to win copper business away from the New York Commodity Exchange.

Although he is no revolutionary (as you would expect of a man of 62 who has been associated with the LME management since 1973) Mr Bagri insists that, if the exchange is to enhance its international status – as he intends it to – "there can be no no-go areas". It needs strategically-placed delivery points for its metals all over the world.

This means Mr Bagri would like to see changes in the US, where LME-authorised warehouses do not stock copper, and in Japan, where they are restricted to storing only primary aluminium.

The first US warehouses started operating less than a year ago and copper, which is traded in sterling in the LME "ring", was excluded so as not to challenge the New York Commodity Exchange's copper contract. This is a dollar contract and occasionally presents arbitrage opportunities to LME traders. However, recent turbulence in currency markets caused a change of heart among London-based traders so the LME copper contract will shortly switch to from sterling to dollars. This eliminates the main reason for excluding copper from US warehouses.

But Mr Bagri does not believe the LME should challenge Comex head-on. "At the end of the day it will be for the users of and dealers in metals in the US to decide whether they feel their best interests will be served by having LME warehouses [for copper] in that part of the world."

He says "frank discussions" will take place between the LME and US users of the exchange, but no pressure will be brought to bear. "I do not rule out the possibility of copper in US warehouses – or any other part of the world – but this is not something we want to thrust on people."

He hoped, however, that consensus could quickly be reached to allow copper into LME warehouses in Japan.

On another "hot" topic – the question of whether ring-dealing members of the exchange are getting a raw deal compared to other members – Mr Bagri says he does not want to pre-judge the study the LME board has asked to be carried out. Nevertheless, "on the face of it there is probably some merit in what the ring-dealing members have been saying. They say they are being asked to carry a greater share of the burden of running the exchange, supporting the exchange and carrying on the business of the exchange, but their returns are not commensurate with the risks they are taking and the facilities they are providing.

"If this is true, we will certainly have to address ourselves to the situation because, if we want to maintain our pre-eminence as a price reference for the international metals market, we need a healthy market, and we need good training practices, we need good, qualified people on the ring, and we need reliable floor members. That means the ring-dealers must be happy."

Mr Bagri suggests there is no suitable alternative at present to the LME's "open outcry" trading system and he is not worried about the recent fall in the number of ring-dealing members, caused primarily by the introduction of new types of associate broker members who do not sit in the ring.

He says it is much more important to have a good cross-section of the metals industry represented in the ring. "Whether the right number is 16 or 22 I can't say. I think it is much better to have a good, fully-committed, fully-financed ring membership of, say, 17 or 18, rather than 20 to 25 members which include quite a lot of weaker members. But I accept the fact that below a certain minimum number it would be difficult for us to run the type of market which we are running.

"But I honestly don't think we are running that risk. I think that, just as some people in the last few years have found it uneconomical or uninteresting to remain ring members, similarly, a number of people will find that, considering the size of the market and the volumes, and taking full advantage of their own strengths, they can make a very good go of ring membership. So I don't think the traffic will be one way only."

Mr John Wolff, the outgoing chairman, suggested recently that the time had come to debate brokers' commissions, which had been steadily eroded over the past 20 years. He pointed out that "now we are trading ever further forward, it means that in some cases brokers are not actually paid commission for two years and three months after they have executed a contract".

Raj Bagri sees no alternative to "open outcry" trading

Mr Bagri says you can't blame users for getting the best deal possible from brokers and the market. "But they may have begun to recognise the law of diminishing returns has already set in and from a longer term point of view it is in the interests of the users of the market that they ensure they are paying adequately for the services they utilise because otherwise they will be net losers in the long run."

Nevertheless, he suggests "the days of setting minimum commissions are long gone".

Then there is the urgent issue of the LME's base. Its lease on the present premises at Plantation House in the City of London runs out in 1994 so a decision has to be made by the middle of next year. Mr Bagri, without actually saying so, gives the impression he would prefer to stay put. He says: "If I was the owner of Plantation House I would do everything possible and try desperately hard to try to keep us here".

Even so, the LME is looking at alternative sites. "I do not believe in change for change's sake but we have an obligation to get value for money for our membership," he adds.

Mr Bagri is certain about one thing – the LME will not move in with another exchange or other exchanges in spite of invitations to do so. "Our judgment so far is we are better off being independent. I have a feeling that people don't expect the LME to be within a big conglomerate of markets – that's what I hear from my international contacts and what I hear from the market place. We are better off maintaining our individual position, particularly in view of the very special nature of our activities and the way users of the market expect us to act."

The first part of Kenneth Gooding's interview with Raj Bagri appeared on December 10.

Indian cotton prices languish

By Kunal Bose in Calcutta

INDIAN COTTON prices are much lower than last year's, in spite of the federal government raising support prices and sanctioning an export quota of 500,000 bales (170 kg each) of cotton, plus 85,100 bales of yellow pickings and soft and hard cotton waste, ahead of the arrival of the new season crop.

The delayed monsoon has ensured that this year's cotton crop will be late and crop arrivals are just begining to pick up momentum. Last year, however, cotton prices were too high, which restricted mill offtake to 10.3m bales. So the 1992-93 season opened in September with very comfortable stocks of nearly 3.3m bales.

The behaviour of cotton prices has once again proved that India cannot depend entirely upon value-added exports of yarn and fabrics. The interest of farmers in cotton cultivation is unlikely to be sustained unless India remains a regular exporter of cotton. In fact, the government may allow further exports of cotton in the current season to maintain domestic prices. Mill offtake is also likely to rise to 11m bales.

Estimates of this year's cotton crop vary between the ministry of agriculture's 11.51m bales and the East India Cotton Association's 12.8m-13.6m bales. The Cotton Corporation of India puts the figure at 13m bales. Based on these projections, the Cotton Advisory Board has settled on a range of 12m to 12.5m bales, up from 11.9m bales last year. As the season progresses, however, the crop estimate may be revised, as had always been the case in the past.

Rains promise bumper oilseeds crop

By Kunal Bose

THE SEPTEMBER rains had left enough moisture in the subsoil to allow India to produce up to 11m tonnes of oilseeds during the winter, according to government figures. With the summer harvest *estimated to have reached* 10.9m tonnes that means total production for the 1992-93 season is likely to be nearly 3m tonnes above target at a record 21.9m tonnes, compared with 19.5m tonnes last year.

The summer crop estimate comprises 5.7m tonnes of groundnuts, and 2.9m of soyabeans, as well as 700,000 tonnes of sunflowerseed, 700,000 tonnes of castor seed and 200,000 tonnes of niger.

The technology mission on oilseeds, set up by the federal government six years ago to reduce the country's dependence on vegeteable oil imports, has been making efforts to promote oilseeds cultivation on scientific lines and the country has succeeded in bringing more and more land under oilseeds by giving good returns to the farmers. But productivity of about 800 kg a hectare is among the lowest in *the world.*

According to government officials, the main reason for the low productivity is the limited use of hybrid seeds.

Guemassa mine to double Morocco's non-ferrous metals output

By Francis Ghiles

MOROCCO'S OUTPUT of non-ferrous metals is being doubled with the opening of *the Guemassa zinc-lead-copper* mine, 35 km (22 miles) due south of Marrakesh.

Guemassa, Morocco's largest mine, is a joint venture between the privately-owned Omnium Nord Africain and the state-controlled Bureau de Recherches et de Participation Miniere.

The mine has reserves estimated at 12m tonnes and production is forecast to run at a rate of 750,000 tonnes of ore a year, giving a 16-year mine life.

It is scheduled to produce annually concentrate (an intermediate product) containing about 67,600 tonnes of zinc, 19,200 tonnes of lead and 3,000 *tonnes of copper. Most of the* output will be exported to Europe, particularly to Spain.

The Guemassa mine ranks as one of the ten largest zinc mines in the world and the second largest in the European and Mediterranean region after the Tara mine in Ireland. ONA has invested Dirhams 850m *(£70m) in the project, Dh520m* from its own reserves. The annual turnover of ONA, whose activities include tourism, food processing, distribution, banking and real estate, amounted to Dh14.2bn last year, Dh600m coming from mining, which is concentrated in three areas. They include *mining precious metals and* copper oxide in the Anti-Atlas, polymetallic ores and precious metals in the Maroc-Central region, as well as Guemassa.

WORLD COMMODITIES PRICES

MARKET REPORT

THE **GOLD** price moved up sharply in London yesterday, aided by a rise in New York that *traders attributed to technical* buying. The London bullion market price closed at $337.05 a troy ounce, up $2 on the day. "A couple of people bought some gold and the market is so thin that it moved," one dealer commented, adding that there was no fundamental news to stir up prices. At the London Metal Exchange attention was focussed on **ALUMINIUM** prices, which rose to the highest level since September. Traders said the rise, which left the three months delivery position $16 higher on the day at $1,240.50 a tonne, was instigated by an *early burst of commission house* buying, possibly against options. US buyers joined in after lunch they added. The **ZINC** market took heart from the firmer aluminium price and mixed buying and short covering lifted the three months price by $11.50 to $1,078 a tonne. Crude **OIL** prices moved higher after the president of the Organisation of Petroleum Exporting Countries said he thought the recent slide was bottoming out.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jan)		+ or -
Dubai	$16.20-6.30u	+.325
Brent Blend (dated)	$17.95-8.00u	+.150
Brent Blend (Feb)	$18.20-8.30	+.300
W.T.I (1 pm est)	$19.45-9.55u	+.325
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$188-190	
Gas Oil ♦	$177-178	+2
Heavy Fuel Oil	$71-73	
Naphtha	$177-179	+1.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$337.05	+2.0
Silver (per troy oz)♣	373.50c	+2.0
Platinum (per troy oz)	$363.75	+0.50
Palladium (per troy oz)	$109.85	-1.40
Copper (US Producer)	103.5c	+0.5
Lead (US Producer)	34.625c	
Tin (Kuala Lumpur market)	14.30r	-0.05
Tin (New York)	265.0c	+1.0
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	114.20p	-1.46*
Sheep (live weight)†♠	76.62	-2.03*
Pigs (live weight)†	86.74p	+1.04*
London daily sugar (raw)	$211.0w	-1.0
London daily sugar (white)	$248.0w	-0.2
Tate and Lyle export price	£242.0	-3.0
Barley (English feed)	107.0z	
Maize (US No 3 yellow)	£155.0	
Wheat (US Dark Northern)	Unq	
Rubber (Jan)♥	63.00p	
Rubber (Feb)♥	63.25p	
Rubber (KL RSS No 1 Jan)	227.5m	+0.5
Coconut oil (Philippines)§	$450y	
Palm Oil (Malaysian)§	$387.5u	
Copra (Philippines)§	$290.0	+2.5
Soyabeans (US)	£170.5	
Cotton "A" Index	54.45c	+0.05
Wooltops (64s Super)	402p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jan/Feb u-Feb x-Aug w-Dec/Jan. z-Jan/Mar. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg. ♠Sheep prices are now live weight prices. ♦ Gas Oil Price for 3/12/1992 174-175 down 2

SUGAR – London FOX			($ per tonne)	
Raw	Close	Previous	High/Low	
Mar	183.00	183.60	185.00	180.00
May	187.00	187.00	187.00	
Aug	190.00		190.00	
White	Close	Previous	High/Low	
Mar	246.60	245.90	246.50	245.40
May	249.00	248.00	249.00	248.00
Aug	255.30	254.60	255.00	254.00
Oct	243.00	242.30	242.30	242.20
Dec	248.60	245.80	246.20	

Turnover: Raw 66 (56) lots of 50 tonnes. White 592 (738) Paris- White (FFr per tonne): Mar 1331.22 May 1364.18

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jan	18.06	17.87	18.06	17.90
Feb	18.27	17.92	18.27	17.94
Mar	18.31	17.95	18.31	17.98
Apr	18.31	17.99	18.31	18.01
May	18.23	18.00	18.23	18.09
Jun	18.25	17.97	18.25	18.04
Jul	18.27	18.02	18.27	
IPE Index	17.91	18.04	17.91	

Turnover 21000 (47625)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Jan	172.25	170.25	172.50	169.75
Feb	173.50	171.00	173.50	171.25
Mar	172.50	170.50	172.50	170.50
Apr	169.50	167.75	170.00	168.50
May	168.75	166.25	169.25	167.00
Jun	167.50	167.25	167.75	167.00

Turnover 9478 (12096) lots of 100 tonnes

WOOL

Prices for wool in Australia continued to drift lower this week, but yesterday the decline was checked, and the market indicator rose 3 cents to 505 cents a kg. This recovery was only achieved after quite large withdrawals by growers of wool before the auctions being held, due to dissatisfaction with prices likely to be realised. The quantity passed in was also large, about 17% at Melbourne and Sydney, 12% at Fremantle. Even the appearance of a firmer close before the Christmas recess, which starts at the end of this week, will help the market tone.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
Dec	652	653	657	645
Mar	675	680	682	673
May	692	697	698	691
Jul	707	712	713	707
Sep	722	727	729	726
Dec	742	750	751	748
Mar	763	770	771	763
May	778	785	787	785

Turnover: 3255 (1841) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Dec.16 735.50 (731.48) 10 day average for Dec 15 756.17 (761.38)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
Jan	1003	1005	1013	1001
Mar	1027	1028	1036	1023
May	1004	1008	1012	999
Jul	1000	1004	1010	996
Sep	1009	1010	1018	1008
Nov	1020	1018	1026	

Turnover:2265 (3956) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Dec.15: Comp. daily 64.13 (64.37) 15 day average 61.84 (61.52)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Apr	63.0	62.0	62.5	61.9
May	69.1		69.1	

Turnover 23 (16) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Feb	152.00	152.00	

Turnover 0 (0) lots of 20 tonnes.

FREIGHT – London FOX			$10/Index point	
	Close	Previous	High/Low	
Jan	1290	1304	1302	1286
Feb	1260	1270	1270	1260
Apr	1255	1265	1255	
BFI	1369	1365	1369	1155

Turnover 66 (242)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jan	135.70	135.70	136.50	135.70
Mar	137.00	137.00	137.75	137.00
May	139.30	139.00	140.00	139.30
Nov	110.30	110.00	110.30	
Barley	Close	Previous	High/Low	
Jan	131.50	131.50	131.80	131.50
Mar	133.75	133.75	134.00	133.75

Turnover: Wheat 533 (386). Barley 45 (185).
Turnover lots of 100 Tonnes

PIGS – London FOX		(Cash Settlement) p/kg
	Close	Previous	High/Low
Jan	103.0		101.0
Apr	102.0		101.5
May	102.0		101.5
Jun	100.5		100.0

Turnover:20 (4) lots of 3,250 kg

LONDON METAL EXCHANGE		(Prices supplied by Amalgamated Metal Trading)				
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 27,319 lots
Cash	1217-8	1201-2	1199.5	1208.5-9.0		
3 months	1240-1	1224.5-5.0	1224.5/1215	1231.5-2.0	1223-4	179,899 lots
Copper, Grade A (£ per tonne)						Total daily turnover 40,943 lots
Cash	1397-8	1397.5-8.5	1401.5/1400.5	1401-1.5		
3 months	1424-5	1425-6	1435/1425	1427-8	1429-30	139,170 lots
Lead (£ per tonne)						Total daily turnover 9,089 lots
Cash	286.5-7.5	289-9.5	289/287	289.25-9.5		
3 months	297-7.25	299-300	299/297	299-9.5	299-300	22,509 lots
Nickel ($ per tonne)						Total daily turnover 10,673 lots
Cash	5740-50	5750-60	5766	5726-30		
3 months	5815-20	5825-30	5850/5820	5795-6	5830-30	40,272 lots
Tin ($ per tonne)						Total daily turnover 1,744 lots
Cash	5700-10	5680-90		5700-2		
3 months	5770-75	5740-50	5820/5720	5760-2	5780-60	9,579 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 10,701 lots
Cash	1058-60	1047-8	1044.5	1058-9		
3 months	1077.5-8.5	1066-7	1071/1063	1077.5-8.0	1070-2	72,690 lots

LME Closing £/$ rate:
SPOT: 1.5775 *3 months: 1.5638* *6 months: 1.5524* *9 months: 1.5445*

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	336.90-337.20	
Opening	334.60-335.00	
Morning fix	334.90	212.567
Afternoon fix	337.30	213.508
Day's high	338.10-338.40	
Day's low	334.70-335.00	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	1.60	6 months	2.11
2 months	1.61	12 months	2.51
3 months	1.62		

Silver fix	p/troy oz	US cts equiv
Spot	235.90	371.40
3 months	239.95	374.40
6 months	243.75	377.60
12 months	251.15	385.40

GOLD COINS	$ price	£ equivalent
Krugerrand	335.0-338.00	211.00-213.00
Maple leaf	347.35-349.60	-
New Sovereign	78.00-81.00	48.00-50.00

TRADED OPTIONS				
Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jan	Apr	Jan	Apr
1150	75	84	3	10
1175	51	65	3	16
1200	31	60	6	25
Copper (Grade A)	Calls		Puts	
2100	114	111	3	9
2150	68	105	3	19
2200	30	71	15	35
Coffee	Jan	Mar	Jan	Mar
950	53	92		16
1000	7	59	4	33
1050		35	47	59
Cocoa	Mar	May	Mar	May
650	41	64	16	22
675	27	49	27	32
700	18	37	43	45
Brent Crude	Jan	Feb	Jan	Feb
1800		36		30
1850		15		61
1900				

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Dec	337.9	334.5	338.0	335.4
Jan	338.3	334.9	0	0
Feb	338.7	335.3	339.3	335.9
Apr	339.8	336.4	340.2	336.8
Jun	341.3	337.9	341.8	338.4
Aug	342.9	339.5	343.2	342.2
Oct	344.6	341.2	343.5	343.5
Dec	346.4	343.0	346.8	345.5
Feb	348.5	345.2	348.0	348.0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jan	366.5	364.6	368.0	365.0
Apr	364.2	362.3	365.5	362.5
Jul	363.2	361.3	364.0	362.0
Oct	364.4	362.5	0	0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Dec	373.0	369.1	372.0	370.0
Jan	373.3	369.5	0	0
Feb	375.1	371.3	375.0	375.0
Mar	375.5	372.2	376.6	373.0
May	378.7	374.9	379.5	376.5
Jul	381.3	377.6	381.5	379.0
Sep	384.1	380.3	0	0
Dec	388.5	384.7	389.0	387.0
Jan	389.7	385.9	0	0
Mar	393.6	389.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	98.60	98.80	99.15	98.55
Jan	98.85	99.15	98.85	98.60
Feb	99.25	99.50	0	0
Mar	99.85	99.85	100.25	99.60
Apr	100.00	100.20	100.40	100.40
May	100.35	100.65	100.90	100.25
Jun	100.65	100.90	0	0
Jul	100.95	101.20	101.50	101.20
Aug	101.25	101.50	101.70	101.50
Sep	101.55	101.80	102.10	101.80

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jan	19.34	18.95	19.38	19.04
Feb	19.48	19.10	19.53	19.18
Mar	19.54	19.19	19.58	19.26
Apr	19.59	19.26	19.60	19.33
May	19.67	19.31	19.67	19.39
Jun	19.66	19.34	19.66	19.45
Jul	19.68	19.36	19.68	19.43
Aug	19.66	19.37	19.54	19.47
Sep	19.54	19.37	19.54	19.50
Oct	19.50	19.37	19.50	19.46

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jan	56.15	53.78	56.35	54.30
Feb	56.10	54.74	56.30	55.30
Mar	56.15	54.90	56.30	55.40
Apr	55.30	54.16	55.50	54.60
May	54.50	53.29	54.45	53.70
Jun	53.85	52.99	53.60	53.30
Jul	54.25	53.34	54.25	53.70
Aug	55.00	53.89	54.35	54.35
Sep	56.70	56.09	56.70	55.50
Oct	56.55	56.04	56.70	56.55

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Mar	944	957	961	943
May	971	984	987	971
Jul	998	1010	1012	997
Sep	1019	1031	1020	1020
Dec	1054	1066	0	0
Mar	1089	1099	1102	1088
May	1111	1121	1124	1124
Jul	1144	1154	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	78.90	79.50	78.90	78.30
Mar	78.70	78.70	79.10	78.10
May	82.05	82.25	82.40	81.65
Jul	83.30	83.95	83.70	83.15
Sep	85.00	85.30	85.25	84.90
Dec	86.65	87.35	0	0
Mar	88.50	90.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	8.19	8.18	8.24	8.16
May	8.38	8.34	8.39	8.33
Jul	8.46	8.44	8.49	8.43
Oct	8.49	8.47	8.52	8.46
Mar	8.60	8.59	8.60	8.57
May	8.73	8.75	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Mar	57.48	58.66	59.32	58.26
May	58.60	59.69	60.30	59.35
Jul	59.70	60.63	61.22	60.31
Oct	60.11	59.70	60.11	60.05
Dec	59.35	59.25	59.40	59.25
Mar	59.96	60.10	59.96	59.90
May	60.20	60.48	59.96	59.96

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jan	92.25	92.70	93.20	92.00
Mar	95.70	96.00	96.90	95.50
May	97.50	98.50	98.25	97.10
Jul	97.75	99.00	99.50	97.75
Sep	97.55	98.35	97.55	97.55
Nov	97.55	98.05	98.50	98.50
Jan	97.95	98.05	0	0
Mar	98.00	98.05	0	0
May	98.50	98.05	0	0

INDICES				
REUTERS (Base:September 18 1931 = 100)				
	Dec.16	Dec.15	mnth ago	yr ago
	1668.0	1665.7	1664.6	1603.7
DOW JONES (Base: Dec. 31 1974 = 100)				
	Dec.15	Dec.14	mnth ago	yr ago
Spot	122.14	122.09	118.12	113.16
Futures	121.27	121.33	118.20	120.40

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jan	569/6	570/6	571/0	568/0
Mar	573/6	574/6	574/6	572/0
May	578/6	580/2	580/4	577/0
Jul	584/6	585/6	586/0	583/0
Aug	587/0	587/0	587/4	585/4
Sep	585/4	587/4	586/4	584/4
Nov	590/2	592/0	591/4	589/4
Jan	597/6	599/4	0	0

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Dec	20.62	20.72	20.68	20.55
Jan	20.71	20.81	20.79	20.64
Mar	20.86	21.02	20.98	20.83
May	21.00	21.16	21.10	20.96
Jul	21.14	21.27	21.23	21.08
Aug	21.13	21.28	21.19	21.10
Sep	21.13	21.25	21.17	21.10
Oct	21.11	21.20	21.17	21.10

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Dec	188.2	188.7	188.3	187.4
Jan	185.6	185.8	185.7	184.5
Mar	184.0	184.6	184.5	183.4
May	183.7	184.4	184.0	183.1
Jul	184.8	185.5	185.2	184.3
Aug	185.5	185.9	186.0	185.2
Sep	186.4	186.9	186.7	186.2
Oct	188.0	188.7	188.0	187.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	212/6	213/2	213/2	212/2
Mar	221/6	222/4	222/2	221/2
May	229/2	230/0	229/4	228/4
Jul	234/2	236/4	235/0	233/6
Sep	238/2	239/2	239/0	238/0
Dec	242/4	244/0	243/4	242/2
Mar	249/4	250/0	249/4	249/0

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	369/0	371/0	371/0	367/6
Mar	358/2	360/2	359/0	357/0
May	343/0	344/6	344/2	342/2
Jul	318/2	319/4	319/0	317/0
Sep	323/0	326/4	324/0	323/0
Dec	334/0	337/0	334/4	333/4

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	79.175	79.225	79.500	78.900
Feb	75.950	76.050	76.575	75.775
Apr	75.625	75.575	76.150	75.500
Jun	72.250	72.225	72.650	72.125
Aug	70.775	70.650	71.125	70.550
Oct	71.225	71.100	71.550	71.100
Dec	71.450	71.500	71.700	71.450

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	44.425	44.475	44.550	43.975
Feb	43.775	43.750	43.875	43.400
Apr	42.225	42.000	42.250	41.850
Jun	46.425	46.325	46.500	46.200
Jul	46.000	45.850	46.000	45.800
Aug	44.675	44.650	44.700	44.500
Oct	41.000	41.050	41.150	40.850
Dec	42.650	42.850	42.650	42.250

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	38.675	39.725	39.200	38.150
Mar	38.625	38.775	39.150	38.175
May	40.000	40.150	40.400	39.500
Jul	40.650	40.300	40.750	39.900
Aug	38.650	38.600	39.150	38.650
Feb	0	0	0	0
Mar	0	0	0	0

LONDON STOCK EXCHANGE

Good advance as confidence returns

By Terry Byland, UK Stock Market Editor

RENEWED demand for UK equities reversed the traditional pattern yesterday by spreading from the second line stocks and boosting the FT-SE listed blue chips. Disappointing November statistics on domestic retail sales and Public Sector Borrowing Requirement failed to restrain investors' optimism and London responded favourably to the latest data on the US economy.

Trading volume increased briskly and a scattering of bid stories, albeit featuring many old favourities, underscored the note of optimism. Two trading programmes were identified, spread across the full range of the market. Activity in stock index futures ahead of Friday's expiry deadline again buttressed the underlying equity market, although there was less arbitraging between futures and equities than in the previous session.

After drifting lower at first to touch 2,713.1, the Footsie turned higher, attracting some genuine buying interest rather than the merely futures-related demand seen earlier this week. The market climbed steadily throughout the session, closing just below the day's best to record a final reading on the FT-SE Index of 2,732.8, a net gain of 14.9.

The FT-SE Mid 250 Index remained very positive, ending with a further advance of 18.4 on the day. Volume in second line stocks well outpaced that of the Footsie-listed issues and the day's total of Seaq-reported business rose to 676.3m shares from the 551.6m of the previous day. Retail business on Tuesday was worth £1.15bn, regaining the higher levels briefly lost on Monday.

Equity strategists at County NatWest drew attention to the substantial recovery in share trading which, they claim, has brought the most active year since 1987, the *annus horribilis* of the stock market. County comments that average daily turnover of more than £1bn this year compares with £912m in 1991.

The news that UK retail sales dipped by 0.1 per cent last month was slightly disappointing for the stores sector, where a rise of about the same proportions had been expected. But the reaction in share prices was calm, with most of the store leaders closing a shade higher. Analysts are focusing on the prospects for the Christmas selling season.

With the bad news from IBM offset by better reports yesterday on US housing starts and industrial production, London continued to look for an early improvement in the economy across the Atlantic. UK investors were unabashed by a slow start to the new session on Wall Street, which was a shade off in London trading hours.

In spite of the upturn in equities, traders remained cautious ahead of the year-end, for which many securities analysts are still predicting a Footsie close of 2,700. Yesterday's buyers appeared to be focusing on stocks which have been under downward pressure recently. Some drinks shares staged a recovery from the upset prompted last week by downgradings on Guinness. Banking issues found support.

Goldman Sachs, the US investment bank, predicted a good rally in UK equities next month, when it believes that attention may return to the cyclical sectors, such as building materials, chemicals, metals, packaging and paper. January rallies, said Goldman, often reflect window-dressing by fund managers, or just investor psychology.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ADT	4	475	
ASDA Group	14,600	84½	
Abbey National	4,000	380	+5
Albert Fisher	3,600	56	+1
Allied-Lyons	1,300	617	+14
Amstrad	7,000	24½	-½
Anglian Water	1,100	485	+3
Argos	2,400	277	-7
Argyll Group	2,600	388	+3
Arjo Wiggins	4,600	187	+5
Ass. Brit. Foods	482	488	-1
Ass. Brit. Ports	782	341	-7
BAA	1,000	789	+6
BAT Inds.	1,700	873	+5
BET	18,000	83	
BICC	2,300	318	
BOC	1,100	762	+14
BP	8,000	223	-1
BPB Inds.	694	184	+1
BT	4,500	392	
BT New	3,700	277	
BTR	4,400	529	+15
Bank of Scotland	4,900	124	+2½
Barclays	3,300	387	+5
Bass	2,400	612	+7
Beresford Int.	25	181	
Blue Circle	1,800	178	+3
Booker	1,300	358	-1
Boots	1,300	514	
Bowater	1,600	480	+2
Brit. Aerospace	6,800	147	+7
British Airways	2,200	278	+4
British Gas	4,800	270	-2
British Land	243	174	+4
British Steel	9,900	85¼	+2½
Bunzl	1,200	175	+5
Burmah Castrol	219	692	-1
Burton	12,000	85	-1½
Cable & Wire.	1,700	663	+4
Cadbury Schweppes	595	441	
Calor Group	25	218	
Carlton Comms.	826	720	+6
Coats Viyella	3,800	209	+4
Comm. Union	284	583	+2
Cookson	1,600	184	+2
Courtaulds	1,400	582	+12
Dalgety	169	485	-1
De La Rue	1,000	868	+13
Dixons	1,900	234	
Eastern Elect.	1,300	393	+2
East Midland Elect.	308	411	+6
Eng China Clays	1,000	410	+10
Enterprise Oil	953	438	+8
Eurotunnel Units	187	324	-5
FKI	10,000	182	+1
Fisons	3,700	219	+7
Forte	833	180	-1
Gen. Accident	538	535	+2
General Elect.	5,600	289	+7
Glaxo	4,000	788	+4
Glynwed Intl.	1,700	233	+4
Granada	1,700	331	
Grand Met.	2,300	443	+2
GUS A	311	1653	+6
GRE	459	171	
GKN	1,600	438	+6
Guinness	3,200	480	-9
HSBC (75p shs)	8,200	475½	-1½
Hammerson 'A'	282	265	
Hanson	8,800	221	+1½
Hanson Warrants	302	17¼	
Harrisons Crosfield	1,800	147½	+5½
Hillsdown	23,000	130	+8
ICI	1,000	1033	+11
Inchcape	1,100	513	+16
Kingfisher	1,200	554	+2
Kwik Save	372	783	+4
Ladbroke	3,000	175	+1
Land Securities	1,600	422	
Laporte	279	821	+11
Legal & General	1,100	422	+2
Lloyds Abbey	447	384	+9
Lloyds Bank	4,000	480	-1
LASMO	3,700	137	
London Elect.	888	411	+6
Lonrho	332	71	-1
Lucas	3,200	125	+2
MB Caradon	6,000	288	+10
MEPC	322	300	-8
Manweb	103	464	+6
Marks & Spencer	4,400	311½	+1
Midlands Elect.	697	447	+5
NFC	1,000	272	+5
NatWest Bank	1,600	395	+1
National Power	3,000	270	+1
Next	2,000	138	+2½
North West Water	1,900	476	+1
Northern Elect.	324	433	+7
Northern Foods	2,300	257	-2
Norweb	280	451	+7
Pearson	1,800	391	+10
P & O	974	477	+7
Pilkington	5,900	90	+5
PowerGen	975	270	+1
Prudential	3,400	287	+4
RMC	[illegible]	270	+1
RMC	783	542	+15
RTZ	2,000	637	+14
Racal	359	153	
Rank Org.	860	676	
Reckitt & Colman	218	602	+7
Redland	2,000	344	-4
Reed Intl.	1,300	632	-1
Rentokil	207	198	+2
Reuters	522	1346	+13
Rolls Royce	7,700	109½	+5½
Ryl Bk Scotland	1,000	197	+5
Royal Insurance	1,100	278	+3
Saatchi	1,500	151	-5
Sainsbury	982	535	-1
Scottish & New	300	444	+3
Scot. Hydro-Elect.	2,400	247	+2
Scottish Power	1,700	228½	+1½
Sears	4,800	96	-1
Sedgwick	4,500	164	+2
Seeboard	477	440	+7
Severn Trent Water	884	468	+3
Shell Transport	3,400	546	+1
Siebe	3,700	411	+7
Slough Ests	106	142	+2
Smith (W.H.) A	783	486	+6
Smith & Nephew	1,300	164½	+1
SmKl Beecham	3,200	594	-½
SmKl Beecham Uts	802	446	-2
Smiths Inds.	355	352	+4
Southern Elect.	1,100	423	+4
South Wales Elect.	689	477	+4
South West Water	515	486	+2
South West. Elect.	463	431	+6
Southern Water	59	486	+3
Standard Chartd.	1,900	546	+3
Storehouse	1,400	186	
Sun Alliance	877	324	+3
T&N	951	151	-1
TI Group	1,300	280	+1
TSB	3,400	142	+3
Tarmac	6,400	106	+6½
Tate & Lyle	3,300	399	+1½
Taylor Woodrow	3,700	89	+3
Tesco	3,600	245½	+2½
Thames Water	788	481	
Thorn EMI	859	828	+10
Tomkins	3,200	238	-2
Trafalgar House	883	76½	-2½
Unigate	734	282	+6
Unilever	1,500	1070	
United Biscuits	3,300	381	-2
Utd. Newspapers	305	403	+2
Vodafone	2,700	411	-8
Warburg (SG)	309	480	-1
Wellcome	1,200	1028	+7
Welsh Water	398	527	-2
Wessex Water	134	577	+1
Whitbread 'A'	818	455	-1
Williams Hldgs.	2,400	318	+7
Willis Corroon	3,000	184	-6
Wimpey	408	102	+3
Wolseley	407	517	-4
Yorkshire Elect.	252	488	+6
Yorkshire Water	880	525	+5

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down.

Account Dealing Dates

*First Dealings: Nov 30	Dec 14	Jan 4
Option Declarations: Dec 10	Dec 30	Jan 14
Last Dealings: Dec 11	Dec 31	Jan 15
Account Day: Dec 21	Jan 11	Jan 25

*New time dealings may take place from 8.30am two business days earlier.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100 2732.8 +14.9 | FT-SE MID 250 2698.8 +18.4 | FT-A ALL-SHARE 1303.34 +7.44

	Dec 16	Dec 15	Dec 14	Dec 11	Dec 10	Year ago	1992 High	1992 Low	Since compilation High	Since compilation Low
FT-SE 100	2732.8	2717.9	2721.8	2716.2	2726.5	2413.6	2792.0	2281.0	2792.0 1/12/92	986.9 23/7/84
FT-SE Mid 250	2698.8	2680.4	2667.9	2662.0	2665.6	2342.2	2825.0	2157.8	2825.8 20/5/92	1379.4 21/1/86
FT-SE-A 350	1328.1	1320.5	1320.8	1318.0	1322.4	1168.8	1345.5	1103.1	1345.5 1/12/92	664.5 14/1/86

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2716.4	2714.2	2714.9	2720.6	2722.3	2721.8	2723.4	2728.4	2731.4	2732.9	2713.1
FT-SE Mid 250	2679.6	2681.7	2684.1	2687.3	2691.0	2691.6	2693.3	2693.0	2697.6	2698.8	2679.6
FT-SE-A 350	1319.5	1319.2	1319.7	1322.3	1323.3	1323.1	1323.7	1325.8	1327.5	1328.2	1318.8

Gross dividend yield (ACT at 25%) FT-SE 100: 4.48%

FT-Actuaries All-Share

EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Index No. (Wednesday December 16 1992)	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%))	Est. P/E Ratio (Net)	xd adj. 1992 to date	Tue Dec 15 Index No.	Mon Dec 14 Index No.	Fri Dec 11 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (175)	817.54	+1.7	6.87	5.24	18.98	31.00	803.97	802.85	802.48	727.39
2 Building Materials (23)	815.82	+1.8	6.24	6.62	22.87	40.39	801.66	798.83	806.05	647.26
3 Contracting, Construction (26)	656.13	+1.3	4.23	7.56	63.89	37.49	647.87	648.03	646.14	846.28
4 Electricals (9)	2337.78	+0.1	7.19	6.47	18.19	109.61	2336.20	2327.97	2298.64	2317.98
5 Electronics (28)	2243.13	+1.7	6.85	3.84	18.53	52.39	2205.40	2175.65	2179.49	1687.96
6 Engineering-Aerospace (6)	278.13	+3.2	12.73	8.45	10.00	16.18	269.59	269.65	266.92	323.56
7 Engineering-General (43)	471.36	+0.8	8.55	5.00	14.94	17.35	467.43	465.43	465.27	456.32
8 Metals and Metal Forming (7)	305.33	+2.8	3.56	4.22	26.23	9.49	297.08	296.84	295.39	293.12
9 Motors (15)	349.16	+0.7	5.82	6.74	25.04	17.77	346.66	346.41	347.34	287.67
10 Other Industrials (18)	1888.76	+2.0	6.49	4.43	18.61	62.07	1851.30	1865.04	1856.37	1462.66
21 CONSUMER GROUP (191)	1702.04	+0.4	6.84	3.42	18.16	43.25	1695.26	1701.60	1700.34	1536.01
22 Brewers and Distillers (25)	1991.26	+0.2	8.35	3.80	14.50	54.23	1987.79	1970.61	1970.03	1912.32
25 Food Manufacturing (18)	1276.57	+0.2	8.22	4.09	15.20	40.47	1274.05	1278.49	1274.50	1203.16
26 Food Retailing (18)	3154.76	+0.4	8.16	2.98	15.94	70.26	3143.02	3151.13	3121.45	2303.81
27 Health and Household (26)	4289.53	+0.5	5.19	2.64	22.42	88.04	4270.24	4333.78	4349.96	4119.73
29 Hotels and Leisure (18)	1200.66	+0.1	6.96	5.74	18.87	46.03	1199.42	1191.66	1195.29	1186.73
30 Media (25)	1767.90	+1.1	5.63	2.94	22.14	39.40	1749.03	1743.87	1753.62	1340.94
31 Packaging, Paper & Printing (17)	758.71	+1.6	6.88	4.29	18.02	24.33	747.12	754.29	751.75	712.98
34 Stores (33)	1106.35	+0.2	6.59	3.28	20.11	26.56	1104.63	1112.68	1108.28	974.10
35 Textiles (11)	700.02	+1.1	6.82	4.30	18.52	23.64	692.61	700.60	700.40	584.69
40 OTHER GROUPS (116)	1384.86	+0.6	8.95	5.03	13.79	50.02	1376.91	1371.97	1369.17	1164.75
41 Business Services (17)	1435.71	+1.2	6.18	3.54	19.83	36.28	1418.11	1409.74	1399.85	1329.05
42 Chemicals (22)	1384.74	+1.3	6.60	5.29	19.17	54.80	1367.11	1370.94	1372.88	1370.59
43 Conglomerates (10)	1311.85	+1.0	9.21	9.03	12.65	54.22	1298.86	1311.36	1316.44	1280.25
44 Transport (14)	2650.60	+0.5	8.46	4.50	14.20	88.31	2636.16	2614.62	2598.86	2263.43
45 Electricity (16)	1491.17	+0.8	14.50	5.07	8.86	56.57	1479.93	1492.92	1488.25	1192.50
46 Telephone Networks (4)	1612.88	-	8.27	4.24	15.73	65.69	1613.65	1598.35	1602.54	1367.60
47 Water (11)	3244.63	+0.4	14.05	5.46	7.91	122.00	3232.72	3184.12	3157.37	2221.16
48 Miscellaneous (22)	2430.18	+0.5	5.84	4.17	21.15	61.03	2417.71	2385.25	2385.25	1682.66
49 INDUSTRIAL GROUP (482)	1379.99	+0.7	7.55	4.27	16.55	42.91	1370.65	1371.38	1369.76	1224.02
51 Oil & Gas (18)	2108.30	-0.1	6.33	6.15	20.76	103.27	2110.97	2107.81	2096.03	2204.73
59 500 SHARE INDEX (500)	1449.87	+0.6	7.42	4.46	16.89	47.72	1441.22	1441.86	1439.35	1300.34
61 FINANCIAL GROUP (82)	842.76	+0.5	-	5.21	-	33.33	838.51	836.40	832.88	701.17
62 Banks (9)	1154.73	+0.5	5.33	4.83	28.14	41.81	1149.03	1146.87	1138.71	829.81
65 Insurance (Life) (6)	1716.51	+1.3	-	5.30	-	68.18	1694.20	1694.98	1689.73	1382.21
66 Insurance (Composite) (7)	609.85	+0.6	-	4.94	-	22.56	606.49	607.33	607.79	483.87
67 Insurance (Brokers) (10)	733.60	-0.6	8.45	7.27	15.89	48.05	738.00	727.79	715.30	981.33
68 Merchant Banks (6)	463.97	-0.1	-	4.92	-	16.75	464.31	463.62	462.22	458.77
69 Property (30)	607.33	+0.2	8.95	6.94	14.65	33.09	608.81	602.03	605.95	803.71
70 Other Financial (14)	278.90	+1.2	7.19	6.01	18.35	11.63	275.67	274.01	273.81	230.87
71 Investment Trusts (64)	1267.74	+0.1	-	3.42	-	32.11	1266.66	1264.48	1259.67	1134.52
99 ALL-SHARE INDEX (651)	1303.34	+0.6	-	4.53	-	43.73	1295.90	1295.88	1293.13	1157.33

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Construction	1283.1	1284.3	1290.5	1291.2	1291.4	1292.0	1293.1	1302.1	1302.1	[illegible]	1284.1	+18.0
Health&H	1292.9	1292.5	1294.8	1296.4	1298.5	1295.5	1295.8	1299.4	1296.8	1297.2	1292.0	+5.2
Water	1336.3	1338.8	1340.7	1347.6	1346.7	1346.9	1343.2	1341.9	1342.2	1342.2	1336.8	+5.4
Banks	1392.8	1393.2	1388.3	1392.1	1392.3	1392.1	1391.9	1393.7	1402.0	1403.4	1396.1	+7.3

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. Lists of constituents are available from The Financial Times Limited, One Southwark Bridge, London SE1 9HL. The FT-SE Actuaries Share Indices Service, which covers a range of electronic and paper-based products relating to these indices, is available from FINSTAT at the same address. The FT-SE 100, the FT-SE Mid 250 and the FT-SE Actuaries 350 Indices are compiled by the London Stock Exchange and the FT-Actuaries All-Share Index is compiled by The Financial Times Limited, both in conjunction with the Institute of Actuaries and the Faculty of Actuaries under a standard set of ground rules. © The International Stock Exchange of the United Kingdom and Republic of Ireland Limited 1992. © The Financial Times Limited 1992. All rights reserved. "FT-SE" and "Footsie" are joint trade marks and service marks of the London Stock Exchange and The Financial Times Limited. CONSTITUENT CHANGES: Addition: Dewhurst Group (30). Deletion: Rank Hovis McDougall (25)

Hillsdown sees heavy trading

SHARES in Hillsdown Holdings were the most heavily traded in the London market yesterday as the company announced a boardroom shuffle which included the replacement of Sir Harry Solomon, the chairman. A maintained dividend was also pledged. The shares, which have surged in recent days, rose 8 to 130p in heavy turnover of 23m.

Analysts heralded the board changes as a possible turning point in the company's fortunes, with the new chairman expected to hasten Hillsdown's restructuring programme and concentrate on its core food manufacturing. Among the disposals already being hinted at in the market yesterday were the sale of Hillsdown's furniture business, with Silentnight rumoured as a potential buyer.

However, in the short-term many observers see Hillsdown continuing to struggle to improve earnings. Mr Carl Short at Nomura commented: "Hillsdown needs pruning back, but it will be a long and difficult task. There is unlikely to be any impact on the business from the new management until 1994." He predicted a 26 per cent drop in earnings per share this year, following falls of some 15 per cent in both 1990 and 1991.

GEC in demand

Aggressive buying by Credit Lyonnais Laing (CLL), the French-owned stockbroker, was said to have been responsible for the strong performance by GEC late on Tuesday and throughout yesterday.

CLL moved into the market after what was described as a "very positive" meeting on Tuesday with Lord Weinstock, GEC's managing director, Mr David Newlands, the group's finance director, and CLL's institutional clients.

Mr Mike Styles, an electronics specialist at CLL, said the GEC directors had detailed the company's strengths, highlighting the success of the Alsthom joint venture, the group's dividend growth policy, strong cash position and the impressive balance sheet. "If you do not believe the UK recovery story, then look no further than GEC," said Mr Styles. GEC shares moved up 7 to 289p on turnover of 5.6m.

RMC flurry

Suggestions that Cazenove, RMC's stockbroker, had hoisted its current year profits forecast for the aggregates group and promoted some keen buying interest in the stock was the prime motivation behind a strong performance for RMC shares.

Dealers said the initial flurry of buying had uncovered "a horrible shortage of stock", and led dealers to mark the shares sharply higher. Building specialists said Cazenove had increased its earnings estimate from £140m to £152m, although this was not confirmed by Cazenove, which never discusses its market operations with the press.

The general consensus for RMC's 1992 earnings ranges from around £140m to £155m. RMC shares have substantially outperformed the Footsie index in recent months. Since early October, the shares have risen more than 40 per cent while the Footsie has moved up around 10 per cent.

Owners applause

Tour operator Owners Abroad won applause for the deal struck with LTU, the German holiday group which earlier this year bought the Thomas Cook travel agent chain. Analysts said the agreement, in which Owners and Thomas Cook took a 10 per cent cross-holding, would benefit the UK operator financially and strategically.

Among the many upgrades, Smith New Court raised this year's forecast by £2m to £38m. Paribas moved to a buy, arguing the deal would not only ensure Owners' dominant presence as the UK's second largest tour group, but also that it still did not rule out a bid from rival Airtours.

However, others in the market, who had climbed aboard in the hope of an Airtours bid, felt otherwise and baled out. After dropping sharply, the shares recovered to close a penny down at 87p in turnover of 4m. Airtours was ahead by the same amount at 264p.

Stocks with a perceived international exposure were helped by the steady flow of encouraging economic pointers from the US. ICI improved 11 to 1033p and BOC saw good two-way business and was bought up to 762p to leave a net advance of 14 on good turnover of 1.1m. Reuters Holdings improved 13 to 1346p. A unit of Reuters announced that it had bought new securities lending software from two UK-based companies for an undisclosed sum.

The recent oil/gas discovery off the coast of Burmah made by Premier Consolidated continued to drive the latter's shares higher; they closed 3 firmer at 21p on keen turnover of 6.9m.

At least three of the leading UK building materials companies, Blue Circle, Tarmac and Pilkington were being touted as potential bid targets by market operators yesterday. A late bout of bid speculation saw all three share prices move ahead.

The heaviest trading was in Pilkington, the troubled glass manufacturer, which last week raided its reserves to pay a maintained interim dividend. Pilkington settled 5 up at 90p on turnover of 5.9m. Tarmac, also among the market's bid favourites in recent months, moved up 6½ to 106p with 5.4m shares traded. Blue Circle put on 3 at 178p on 1.8m.

Tate & Lyle improved as the market dwelt further on the impact of the new sweetener deal being negotiated with PepsiCo. However, observers pointed out that Tate had been optimistic on the subject for several weeks and most of the upside was already in the shares. They moved 1½ higher to 399p.

Some media stocks took heart from research on advertising prospects. Analysts said one survey, emanating from the US PaineWebber media conference, was predicting US advertising growth next year of between 0.2 per cent and 3.7 per cent.

Pearson, which has significant exposure to the US, rose 10 to 391p as marketmakers found themselves short of stock. However, Reed International, seen as overvalued, eased a penny to 632p.

Media-buying company Aegis fell 3 to 17p after the group announced more restructuring and £20m in exceptional costs. The company said trading conditions were expected to remain difficult in the main European markets.

The Daily Telegraph exceeded its issue price for the first time yesterday. The shares were floated at 325p in June but began trading around the 290p level. Yesterday, the stock climbed 8 to 330p.

Mirror Group remained firm, closing 3¼ stronger at 89¼p, helped by some talk that the administrators were considering placing part of their stake at 125p.

Specialist chemicals manufacturer MTM was the principal casualty in the London stock market yesterday. The shares halved in value after the group announced the need for further provisions because of poor trading.

MTM said: "The continuing high level of debt and associated interest payable, as well as the exceptional fees being incurred has negated any short term financial progress being made. The decline in the pound/dollar exchange rate has increased the group's sterling obligations. MTM shares closed 16 lower at 15p.

A stock overhang was responsible for the decline in Associated British Ports. The stock gave up 7 to 341p.

Shares in Alvis jumped 5 to 19p after the results.

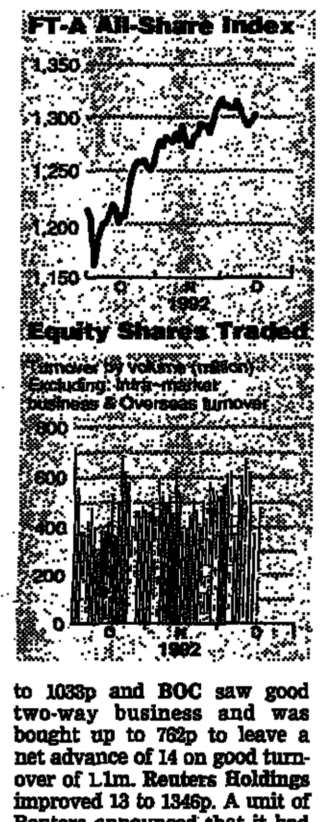
Among aerospace stocks, the news that the Airbus consortium had won an order for 28 aircraft from ILFC led to strong demand for British Aerospace. The shares jumped 7 to 147p in heavy trade of 8.3m.

Strong demand for Rolls-Royce after it said it would supply $160m of engines to power ILFC aircraft was tempered by dividend worries. The shares closed 5½ higher at 109½p. Optimism in the sector also boosted Smiths Industries and the stock firmed 4 to 352p. Smith New Court, however, remains cautious.

Two trades totalling 15.4m shares in BET were executed at 75p, apparently an overnight tax-related deal. BET closed unchanged at 83p.

MARKET REPORTERS: Peter John, Joel Kibazo, Christopher Price, Steve Thompson.

■ Other market statistics, Page 21



NEW HIGHS AND LOWS FOR 1992

NEW HIGHS (88). AMERICANS (1) Lowe's, BANKS (1) Bank Ireland, BREWERS & DISTILLERS (1) Bulmer (HP), BUSINESS SERVICES (1) Serco, CHEMICALS (2) Halstead (J), Wolstenholme Rink, CONTRACTING & CONSTRUCTION (2) Barratt Devlpt., Sherill, ELECTRICALS (1) Jones Stroud, ELECTRONICS (3) Cray, Lexicon, Macro 4, Micro Focus, Mitel, ENGINEERING GENERAL (3) Carclo, Halma, Siebe, FOOD RETAILING (1) Iceland Frozen, HEALTH & HOUSEHOLD (1) Mayborn, [illegible] (1) MFI, TEXTILES (2) Claremont Garments, Courtaulds, TRANSPORT (1) Tibbett & Britten, WATER (2) East Surrey, Northumbrian.

NEW LOWS (23). BREWERS & DISTILLERS (1) Matthew Clark, BUILDING MATERIALS (2) Darby, Needler, BUSINESS SERVICES (1) BNB Res., CHEMICALS (2) Caird, MTM, CONGLOMERATES (2) Porter Chadburn, Reece, CONTRACTING & CONSTRUCTION (1) McCarthy & Stone, ELECTRICALS (2) Clarke (T), Lec, ENGINEERING GENERAL (1) GEI, INVESTMENT TRUSTS (3) Conti. Assets Wts., German Smllr. Wts., TR European Growth Prtg. Subs., MEDIA (1) Chiltern Radio, MISCELLANEOUS (2) Dudley Jenkins, Holders Technology, TEXTILES (1) Campari, TRANSPORT (2) Fisher (J), TIP Europe, MINES (2) Aztec Explm, Hartebeest.

FINANCIAL TIMES EQUITY INDICES

	Dec 16	Dec 15	Dec 14	Dec 11	Dec 10	Year ago	High	Low
Ordinary share	2061.8	2067.3	2067.2	2062.8	2064.2	1833.7	2149.7	1870.0
Ord. div. yield	4.48	4.49	4.49	4.48	4.48	5.01	5.34	4.24
Earning yld % full	6.10	6.17	6.17	6.16	6.15	7.53	-	-
P/E ratio net	20.92	20.74	20.74	20.78	20.81	16.68	21.21	15.79
P/E ratio nil	19.32	19.10	19.10	19.13	19.16	15.79	-	-
Gold Mines	64.0	64.7	65.5	65.7	68.4	145.6	160.6	63.0

*for 1992 Ordinary share index since compilation: high 2149.7 22/5/92 - low 49.4 26/6/40
Gold Mines index since compilation high: 734.7 15/2/83- low 43.5 26/10/71
Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2067.9	2066.0	2068.0	2070.4	2071.1	2072.1	2073.7	2076.9	2080.0	2081.9	2064.1

Volume	Dec 16	Dec 15	Dec 14	Dec 11	Dec 10	Year ago
SEAQ Bargains	22,716	22,003	24,244	29,526	25,579	22,133
Equity Turnover(£m)†	-	1148.1	846.8	1406.4	1453.1	1563.1
Equity Bargains†	-	25,609	28,202	33,982	23,769	21,486
Shares traded (mil)†	-	489.7	387.0	621.8	683.2	597.9

† Excluding intra-market business and overseas turnover.

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LONDON SHARE SERVICE

BRITISH FUNDS

	Notes	Price £	+ or -	1992 high	1992 low	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)							
Treas 8¼pc 1993		100¼	—	100⅜	97⅞	8.23	[illegible]
10pc 1993		101	—	101½	98⅞	9.95	[illegible]
12½pc 1993		103¾	—	104¼	100⅞	12.18	[illegible]
Funding 6pc 1993		99⅞	—	100	95⅞	6.02	[illegible]
Treas 13¾pc 1993		106⅜	—	107¾	103⅞	12.92	[illegible]
8¼pc 1994		101⅛	—	102⅜	98⅛	8.34	[illegible]
14½pc 1994		109⅝	-⅛	110⅞	104⅞	13.31	[illegible]
Exch 13½pc 1994		108⅞	—	110⅛	103⅞	12.43	[illegible]
Treas 10pc Ln 1994		104⅞	—	105⅞	98⅞	9.59	[illegible]
Exch 12½pc 1994		108⅜	—	110⅛	103⅞	11.51	[illegible]
Treas 9pc 1994		103⅞	—	104⅛	96⅞	8.66	[illegible]
12pc 1995		109⅞	—	111⅛	102⅞	10.97	[illegible]
Exch 3pc Gas 90-95		94⅛	—	95⅜	88⅞	3.18	[illegible]
10¼pc 1995		107⅞	-⅛	108⅞	99⅛	9.54	[illegible]
Treas 12¾pc 1995		114⅛	—	116⅛	106⅜	11.14	[illegible]
14pc 1996		117⅞	+⅛	119⅞	109⅞	11.89	[illegible]
9pc 1992-96		100⅛	—	104½	96⅞	8.88	[illegible]
15¼pc 1996		122¼	—	125¼	113⅞	12.42	[illegible]
Exch 13¼pc 1996		117	—	118⅞	108	11.32	[illegible]
Conversion 10pc 1996		108⅞	—	110⅞	98⅞	9.18	[illegible]
Treas 13¼pc 1997		119⅞	+⅛	121⅞	109⅞	11.10	[illegible]
Exch 10½pc 1997		110⅞	—	112⅞	100⅞	9.50	[illegible]
Treas 8¾pc 1997		105¼	-⅛	107½	94	8.31	[illegible]
8¾pc '97 (£50 pd)		60⅛	—	65½	60	8.32	[illegible]
Five to Fifteen Years							
Exch 15pc 1997		128⅞	+⅛	131⅛	117⅞	11.66	[illegible]
9¾pc 1998		109⅛	-⅛	111⅛	97⅞	8.94	[illegible]
Treas 7¼pc 1998 (£25 pd)		25⅛	+⅛	27⅛	24⅛	7.28	[illegible]
Treas 6¾pc 1995-98		97⅛	+⅛	99⅛	86⅞	6.94	[illegible]
15½pc '98		134⅛	+⅛	137⅞	123⅞	11.55	[illegible]
Exch 12pc 1998		118⅛	—	121⅛	107⅞	10.12	[illegible]
Treas 9½pc 1999		108⅛	+⅛	111⅛	97⅞	8.77	[illegible]
Exch 12¼pc 1999		120⅛	—	123⅛	109⅞	10.19	[illegible]
Treas 10½pc 1999		113¼	—	116⅛	101⅞	9.28	[illegible]
Conversion 10¼pc 1999		112⅛	+⅛	115⅞	100⅞	9.11	[illegible]
9pc 2000		106⅛	+⅛	109¼	94⅛	8.49	[illegible]
Treas 13pc 2000		125⅞	+⅛	128⅞	114⅞	10.33	[illegible]
10pc 2001		116¼	+⅛	113⅞	99⅞	9.06	[illegible]

BRITISH FUNDS - Cont. [illegible]

BRITISH FUNDS - Cont. — Index-Linked [illegible]

OTHER FIXED INTEREST [illegible]

Continued on next page

FUTURES AND OPTIONS TRADING

ROLLING forward of positions from the December contract into March was the main feature in stock index futures, although buying from a large US house helped to boost turnover, writes Joel Kibazo.

After opening at 2,720, selling of the December contract on the FT-SE by independent traders led it to fall to 2,715 within the first hour of trading. Dealers, however, appeared to have been caught short, and together with good buying said to have come from one US house, December recovered to move forward for the rest of the session.

The release of disappointing retail sales figures for November had little effect and instead led to some renewed speculation of a cut in interest rates. With only two full days to go before the expiry of the December contract, trading was again featured by extensive switching into the March version.

December finished at 2,740, up 20 from the previous close and at a 9-point premium to the underlying cash market. Turnover in the December contract was 7,746 lots, while that in March reached 4,793.

Volume in the traded options returned to more modest levels. Total turnover came to 29,456 lots, of which 9,339 contracts were dealt in the FT-SE 100 option.

Asda was the busiest stock option with turnover of 6,252 contracts. It was followed by Rolls-Royce on 1,470 and Ladbroke on 1,346.

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1992 High	1992 Low	Mkt Cap£m	Yld Gr's
Abbott Labs	h	20xd	-1/8	21	14⅝	16,599	1.9
Allegheny & W	♥	453p	—	454p	225p	225.0	4.4
Amdahl		451p	-20	1156p	435p	508.5	1.4
Amer Cyanamid		36⅜	-1/8	38½	23⅝	3,310	2.8
Amer Express		15½xd	-1/8	15¾	10¼	7,388	4.1
Amer T & T		30½xd	-½	31½	20⅝	40,561	2.7
Ameritech		44⅜	-1/8	45⅜	32½	19,428	5.0
BankAmerica		29⅝xd	+⅛	30⅞	19⅛	10,293	2.8
Bankers NY		42¼xd	-⅛	44	28⅞	3,381	4.2
Bell Atlantic		31½	-⅛	31⅞	23⅛	13,734	6.1
BellSouth		32¼	-⅛	34⅛	25	15,858	5.4
Bethlehem Steel	♥	9½xd	-⅛	10⅛	5¾	859.4	—
Bowater		1586pxd	-39	1637p	905p	579.1	4.7
CPC	h	29½xd	-½	33	22⅞	4,498	2.6
Cadiz Land Inc	♥	115p	—	342p	108p	—	—
California Engy		1050p	—	1050p	581p	191.2	—
Chase Manhattan		17⅛xd	—	18⅛	9⅛	2,567	4.4
Chrysler		20¼xd	-½	21¼	6¼	5,893	1.9
Citicorp		12xd	-⅛	12[illegible]	5⅛	4,364	—
Colgate-Palm		38⅝xd	-⅛	43⅛	25¼	5,835	2.1
Cont'l Bank		1224p	-28	1321p	489p	1,247	3.1
Dana		28⅝xd	+¼	29[illegible]	14⅞	1,313	3.5
Data General		698p	-31	1604p	384p	192.1	—
Decora Inds	♥	140p	—	140p	88p	—	—
Dun & Brad		38⅛	-⅛	38⅞	27⅞	6,523	3.9
Eaton		49⅛	+⅛	49¼	32½	1,968	2.9
Echlin		14⅛xd	—	14⅞	7⅞	808.0	3.1
FPL		22⅞xd	—	23¼	17[illegible]	4,110	6.9
Fluor		27¼xd	—	30[illegible]	18¼	2,260	1.1
Ford Motor		28⅞xd	-⅛	27⅞	15	12,858	2.4
Gen Elect		53⅛xd	+⅛	55	36¼	45,837	3.0
General Host	♥	585p	—	611p	360p	—	3.9
Gillette		37¼xd	-⅛	40	23[illegible]	8,171	1.2
Hasbro		20⅞	—	23½	12⅛	1,822	0.6
Honeywell		43⅞xd	-⅛	44⅝	32	3,037	2.6
Houston Inds		28⅛	-⅛	29½	22	3,669	6.6
IBM		32⅞	-2⅜	54½	32⅞	18,762	9.3
Ingersoll-Rand		19⅛xd	-⅛	21	12[illegible]	1,981	2.3
Lockheed		33⅞	-⅛	35⅞	22⅞	2,063	4.0

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

CHEMICALS

CONGLOMERATES

CONTRACTING & CONSTRUCTION

ELECTRICALS

ELECTRICITY

ELECTRONICS

ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

FOOD MANUFACTURING

FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

INSURANCE BROKERS

INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

[illegible]			

INVESTMENT COMPANIES

[illegible]			

MEDIA

[illegible]			

MERCHANT BANKS

[illegible]			

METALS & METAL FORMING

[illegible]			

MISCELLANEOUS

[illegible]			

MOTORS

[illegible]			

OIL & GAS

[illegible]			

OIL & GAS - Cont.

[illegible]			

OTHER FINANCIAL

[illegible]			

OTHER INDUSTRIALS

[illegible]			

PACKAGING, PAPER & PRINTING

[illegible]			

PROPERTY

[illegible]			

STORES

[illegible]			

PACKAGING, PAPER & PRINTING

[illegible]			

TEXTILES

[illegible]			

TRANSPORT

[illegible]			

WATER

[illegible]			

SOUTH AFRICANS

[illegible]			

PLANTATIONS

[illegible]			

MINES

[illegible]			

MINES - Cont.

	Price	+ or -	high	low	Mkt Cap£m	Yld Gr's
[illegible]						
Geevor	4¼	—	5	4½	1.62	–
Glencar Expl IE ‡‡	8	—	16	6	1.48	–
Greenwich Res □	5¼	—	11	2	3.05	–
Hemlo Gold C$	£3½	—	£5½	£3¼	379.6	2.8
Ivernia West IE ‡‡□	30	—	53	30	16.1	–
Kalis Minis IE ‡‡□	12	—	42	12	0.28	–
Kenmare □	7	+¼	7	2¼	6.72	–
Mallaga Res.	21	+3	48	8	2.32	–
Raven Res IE ‡‡	33	—	34	16	4.42	–
Oryx Gold	46¾	—	105	46¼	–	–
Plateau	3#	—	13	3	1.37	–
RTZ □	637	+14	669	469	6,369	4.1
Vizcaya	1½	—	3	1	0.89	–

GUIDE TO LONDON SHARE SERVICE

Company classifications are based on those used for the FT-Actuaries Indices and FT-Actuaries World Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid- prices.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Estimated price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation, excluding exceptional profits/losses and unrelieved ACT where applicable. Yields are based on mid-prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

□ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ).
● "Tap Stock"
* Highs and lows marked thus have been adjusted to allow for rights issues for cash
† Interim since increased or resumed
‡ Interim since reduced, passed or deferred
‡‡ Tax-free to non-residents on application
Φ Figures or report awaited
♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
♣ Free annual/interim report available, see details below.
☆ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
†† Not officially UK listed; dealings permitted under Rule 535(2)
# Price at time of suspension
¶ Indicated dividend yield after pending scrip and/or rights issue.
♦ Merger bid or reorganisation in progress
§ Forecast dividend yield; p/e based on earnings updated by latest interim statement.
ϕ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
c Cents.
f Flat yield.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v Not subject to ACT.
z Dividend yield includes a special payment
E Auction basis
F Yield based on prospectus or other official estimates for 1994-95.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1993.
K Yield based on prospectus or other official estimates for 1992-93
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1993-94.
N Yield based on prospectus or other official estimates for 1992.
P Figures based on prospectus or other official estimates for 1994.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
T Figures assumed.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xl ex capital distribution.

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FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

AIB Unit Trust Managers Limited (1000)F
51 Belmont Rd, Uxbridge, Middx UB8 1RZ 0895 259783

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Grofund American	5	148.9	150.4	158.3	-1.10	0.00
AIB Grofund Equity	5	195.2	197.9	209.5	+0.60	1.83
AIB Grofund Euro	5	140.7	142.8	150.3	-0.70	0.59
AIB Grofund Eqt Balanced	3	97.87	99.50	102.58		0.00
AIB Grofund Gilt	3	74.56	74.59	76.89	-0.09	5.45
AIB Grofund Japan	5	122.9	124.3	130.8	-0.40	0.00

AXA Equity & Law Unit Tst Mngrs (1200)H
Equity & Law Hse, Corporation St, Coventry 0203 553231

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
General Inc	5	388.9	390.9	415.9	..	2.84
General Acc	5	423.5	425.7	452.9	..	2.84
UK Growth Acc	6	285.3	289.6	308.1	..	3.23
UK Growth Inc	6	204.5	207.6	220.9	..	3.23
Higher Inc Acc	6	487.9	495.7	527.4	...	4.69
Higher Inc Inc	6	301.0	305.8	325.4	...	4.69
Gilts/F'xd Int Acc	5½	166.4	166.4	175.7	...	7.29
Gilts/F'xd Int Inc	5½	89.67	89.67	94.71	...	7.29
Nth America	6	240.5	245.3	261.0	...	0.00
Far East	6	224.9	224.9	239.3		3.30
Europe	6	193.3	193.3	205.7		1.69
Brit. Excell	6	58.98	58.98xd	62.75		3.25
Brit Fndmtls Acc	6	75.28	75.28	80.09		5.29
Brit Fndmtls Inc	6	59.09	59.09	62.87		5.29
Global Opps	6	60.14	60.74xd	64.62		0.00

Abbey Unit Tst Mngrs (1000)H
80 Holdenhurst Rd, Bournemouth 0345 717373

Britannia Life Unit Managers Ltd (1200)F
190 West George St, Glasgow G2 2PA 041-332 3132

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Balanced Growth	6	84.26	85.45	91.39	+0.28	2.40
Do (Accum)	6	92.00	93.29	99.78	+0.31	2.40
Smaller Cos	6	62.10	62.10xd	66.42	-1.61	2.61
Do (Accum)	6	67.15	67.15	71.82	-1.74	2.61
Higher Yield	6	33.68	34.06	36.43	+0.17	5.57
Do (Accum)	6	45.52	46.05	49.25	+0.23	5.57
American Gth Inc	6	48.39	48.60	51.97	-0.22	0.16
Do (Accum)	6	49.31	49.52	52.96	-0.23	0.16
European Growth	6	86.13	86.13	92.12	-0.49	2.09
Do (Accum)	6	86.93	86.93	92.98	-0.50	2.09
Global Bond Inc	6	26.64	26.85xd	28.48	-0.15	5.11
Do (Accum)	6	32.74	32.99	35.00	-0.19	5.11
Managed P'folio Inc	6	29.59	29.67	31.73	-0.08	0.00
(Do Accum)	6	29.68	29.75	31.82	-0.08	0.00
Pacific Growth Accum	6	75.63	75.63	80.89	-0.88	1.48
Intl Spec Opps Accum	6	71.84	72.59	77.64	+0.41	1.83

Brown Shipley & Co Ltd (1000)F
9-17 Perrymount Rd Haywards Hth 0444 412262

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Mngd P'folio Inc	6	79.03	79.03	84.17	+0.22	2.47
Mngd P'folio Acc	6	148.0	148.0	157.6	+0.40	–
UK General	6	129.1	129.1xd	137.5	+0.20	3.69
Conv & General	6	16.42	16.42xd	17.49	.....	8.82
European Inc	6	20.09	20.09	21.68	-0.08	0.52
European Acc	6	20.75	20.75	22.39	-0.08	–
Financial	6	93.89	93.89	99.99	-0.41	4.44
Foundation	6	61.03	62.71	66.79	+0.28	4.20
German	6	36.22	36.22xd	38.84	-0.10	0.10
Growth Inc (5-U)	5	26.15	26.23xd	27.93	+0.06	3.32
Growth Acc (5-U)	5	30.45	30.54	32.52	+0.06	–
High Income	6	62.83	63.05	68.09	-0.02	6.90
Income	6	105.1	106.2	114.7	+0.50	5.06
Intl Income	6	81.92	81.92	87.24	....	5.53
Intl Growth ♣	6	29.55	29.55	31.47	-0.21	0.25
Monthly Income	6	57.27	59.34xd	63.20	+0.02	5.33
North American	6	95.86	95.86xd	102.1	-0.60	0.21
Orient ♣	6	89.30	89.30	96.06	-0.35	–
Recovery	6	27.18	27.18xd	29.35	-0.02	4.02
Smaller Cos Acc	6	195.7	195.7	209.4	-0.40	–
Smaller Cos Inc	6	114.6	114.6	122.6	-0.20	1.88

Brycourt Unit Tst Mngmt Ltd (1400)F
Hesketh Hse, Portman Sq, W1H 0JR 071-939 6382

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Income Growth	1	179.9	179.9	184.9	....	6.75

Buckmaster Mangmt Co Ltd (1200)H
15 St Botolph Street, London EC3A 7JJ 071-247 4542

Confederation Funds Mngt Ltd (1200)F

Consistent Unit Tst Mngt Co Ltd (1200)F

Co-op Pension Fds UT Mgrs Ltd (1000)F

Crown Unit Tst Services Ltd (1200)F

Dimensional Tst Mangmt Ltd (0900)F

Discretionary Unit Fund Mngrs Ltd (1000)F

Drummond Fund Mangt Ltd (1000)F

Dunedin Unit Tst Mngrs Ltd (1400)H

MGM Unit Managers Ltd (1000)F
MGM House, Heene Rd, Worthing

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: [illegible]

OFFER PRICE: [illegible]

BID PRICE: [illegible]

CANCELLATION PRICE: [illegible]

TIME: [illegible]

HISTORIC PRICING: [illegible]

FORWARD PRICING: [illegible]

SCHEME PARTICULARS AND REPORTS: [illegible]

§§ Life Assurance and Unit Trust [illegible]

FT MANAGED FUNDS SERVICE

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OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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Prolific Life & Pensions Ltd
Stramongate, Kendall, Cumbria LA9 4UB. 0539 733733
Managed Fund see Balanced Growth Managed Fund

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
Balanced Grth Mngd	615 8	655.2	-1.3	-
Adventurous Mngd.	147.2	156.6	-0 7	-
Cautious Mngd.	119.8	127.5	-0.2	-
Cash Fd.	314 8	331 8	......	-
Property Fund	215.7	229.5	......	-
Equity Fund	702.0	746 9	-3.5	-
Fxd. Int. Fund.	394.7	416.0	...	-
International	312.7	332 7	-1.7	-
High Income	546 7	581 6	+1.3	-
Far East	408 7	434 8	-1.4	-
North American	414 9	441.4	-4 4	-
Special Sits.	498 4	530.3	-1.1	-
Technology	415.2	441.8	-4 8	-
Extra Inc Fd.	299.6	318.8	+0.6	-
Convertible & Gilt Fd.	144 1	153.4	+0 1	-
American Income	166 1	176 8	-1.4	-
Gilt Fund 20	433 9	461.7	-0.4	-
European Fund	112 0	119.2	...	-
Pref & Fixed Int	109.2	116.2	.	-
UK Blue Chip	113 4	119 5	......	-
Recovery Fund	104.6	110.3	+0.2	-
Equity Income Dist.	100.5	107.0	-0.2	5 01
Managed Dist.	95.5	101.7	-0.2	5.35
High Yield Dist.	100 0	105 4	-0.1	7.55
Pension Funds				
Balncd Gth Mngd Pens Acc.	718.1	755.9	-1 5	-
Adventurous Mngd Pens Acc.	153 5	161 6	-0.6	-
Cautious Mngd Pens Acc.	137.6	144 9	-0.3	-
Building Soc. Acc.	362.4	381.5	......	-
Property Pens. Acc.	294 0	309.5	......	-
Fix. Int. Pens Acc.	622.0	654 8	-0 6	-
Equity Pens. Acc.	898 9	946 3	-3 9	-
International Pens Acc.	287.3	302.5	-1.5	-
High Inc Pens Acc.	615 4	647 8	+1.4	-
Tech Pens Acc.	292.9	308.4	-4 5	-
N American Pens Acc.	311.5	327 9	-3.9	-
Far Eastern Pens Acc.	402 1	423.3	-1.5	-
Special Sits Pens Acc.	410.5	432 2	-0.6	-
Extra Income Pens Fd.	365 6	384.9	+0.9	-
Convertible & Gilt Pen.	175 6	184.9	-2.2	-
American Inc Pens.	189.5	199 5	+0 3	-
European Pens.	124.0	130.6	...	-
Managed Cash Pens.	170 7	179 7	..	-
Pref & Fixed Pens	126 9	133 6	.....	-
UK Blue Chip	119.9	126.3	.....	-
Recovery Fund	110.4	116.3	+0.2	-
Unitised With Profits Pens	107.2	112.9	....	-
Other Funds				
Margetts Growth	114 8	120.9	-0 3	-
Margetts Income	116.7	122.9	-0.2	-
Margetts Pension	125.3	131.9	-0.4	-

Reliance Mutual
Reliance House, Tunbridge Wells, Kent 0892 510033

	Bid Price	Offer Price	+ or -	Yield Gross
Deposit Acc Fd.	167.4	176.2	...	-
Equity Acc Fd.	383.4	403.5	+1.1	-
Managed Acc Fd.	336.3	354 0	.....	-
Prop Fd (1st Issue)	-	614 1	...	-
Prop Acc Fd (2nd Iss)	120.3	126 6	......	-
Unit Trust Mn. Fd.	149.9	157.8	...	-
RL Pension Funds				
Deposit Acc.	242.7	255 4	...	-
Equity Acc.	281.2	296.0	+1.0	-
Fixed Int Acc.	242.6	255.4	..	-
Gilt Indx Lnk Acc.	181.2	190 8	......	-
Managed Acc.	370.8	390.3	....	-

J Rothschild Assurance PLC
J Rothschild House, Dollar Street, Cirencester
Telephone: 0285 640302 Helpline. 041 307 6500

	Bid Price	Offer Price	+ or -	Yield Gross
Life Funds				
JRA/M&G Managed	108 1	113.8	+0.30	-
JRA/Scottish Amicable Mngd	104.6	110.2	+0.10	-
JRA/St James's Place Mngd	111.0	116.9	+0.10	-
Deposit	99.80	105 1	...	-
Far East	106 6	112.3	-0.20	-
Gilts	104 5	110 0	-0.30	-
Greater European	105 8	111 4	-0 10	-
North American	122.2	128.7	-0 80	-
UK Equity	108.4	114 2	+0.20	-
Pension Funds				
JRA/M&G Managed cap	105 5	111.1	+0.30	-
JRA/M&G Managed acc.	108 8	114 6	+0.40	-
JRA/Scottish Amicable Mngd cap	101 4	106 8	.....	-
JRA/Scottish Amicable Mngd acc	104 6	110 2	..	-
JRA/St James's Pl Mngd cap	112 6	118 6	+0.10	-
JRA/St James's Pl Mngd Acc	116.1	122.3	+0 10	-
Deposit cap.	99 80	105.1	..	-
Deposit acc.	102.9	108 4	...	-
Far East cap.	102.0	107.4	-0 20	-
Far East acc.	105.2	110 8	-0 10	-
Gilts cap.	102.3	107.7	-0.30	-
Gilts acc.	105 5	111.1	-0.30	-
Greater European cap.	104 9	110.5	-0.10	-
Greater European acc.	108.3	114 0	-0 10	-
North American cap.	125.3	131.9	-1.20	-
North American acc.	129.2	136 0	-1.30	-
UK Equity cap.	105 2	110.8	..	-
UK Equity acc.	108.5	114.3	+0 10	-

Scottish Mutual Assurance plc
109 St Vincent St, Glasgow 041-248 6321

Sun Alliance Group – Contd.

Albany International Assurance Ltd
St Mary's, Castletown, Isle of Man 0624 823262

Target International Group

Guinness Flight Fd Mngrs (Guernsey) Ltd
PO Box 250, St Peter Port, Guernsey 0481 712176

Merrill Lynch Guernsey

MANAGEMENT SERVICES

OFFSHORE INSURANCES

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

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IRELAND (REGULATED)(**)

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ISLE OF MAN (REGULATED)(**)

FT MANAGED FUNDS SERVICE

• Current Unit Trust prices are available on FT Cityline. Calls charged at 36p/minute cheap rate and 48p/minute at all other times. For further details call (071) 925 2128.

	Bid Price	Offer Price	+ or -	Yield Gross
IBI Global Funds Limited				
Intl Stlg Gwth	£20.05	21.12	+0.14	-
Intl $US Gwth	$17.85	18.80	-0.07	-
High Income Gilt	£25.88	26.83		-
International Equity	£20.35	21.43	+0.23	-
International Bond	£22.45	23.27	+0.39	-
Managed Currency	£27.51	27.79	+0.05	-
Sterling Currency	£26.50	26.78	+0.06	-
US$ Currency	$37.77	38.16	+0.02	-
Irish £ Currency	I£15.23	15.40	+0.06	-
R & H Fund Managers Ltd				
LFM Sterling Fd	£11.04	11.51	....	-
B.F. Offshore Inc Fd Ltd	£11.19	11.85	....	-
Target International (Isle of Man) Ltd				
IMC Offshore Fd	£9.05	9.79	....	-
Nelson Miles W/W S/S	£9.41	9.71	....	-

JERSEY (SIB RECOGNISED)

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
AIB Fund Managers (CI) Ltd						
PO Box 468 St Helier Jersey 0534 36633						
AIB Currency Funds Ltd						
Intl Managed Bond	5		£– 21.0421	21.0557	[illegible]	-
Managed Capital Bd	5		£– 21.2350	21.2578	[illegible]	-
AIB Grofund Currency Fund Limited						
Stlg Mngd Currency	5		£–	10.9830	[illegible]	-
Sterling Currency Fd	5		£–	10.5626	[illegible]	-
Ecu Currency	5		Ecu–	10.7128	[illegible]	-
US Dollar Mngd Curr	5		$–	21.5547	[illegible]	-
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67888						
Australian Eq (Inc)	5¼	£0.856	0.861	0.921	[illegible]	0.9
Global Income (Inc)	5¼	£0.490	0.490xd	0.524	[illegible]	3.1
Global Resources	5¼	£0.393	0.393xd	0.420	[illegible]	0.5

	Bid Price	Offer Price	+ or -	Yield Gross
Lloyds Bank Trust Co (CI) Mngrs				
Lloydsma World Inv Port	£2.494	2.6091	....	1.32
Dealing weekly on Thursday				
Management International (Jersey) Ltd				
Anchor Gilt Edge (z)	£9.90	9.94	-0.01	9.46
Minerals, Oils Res. Shrs. Fd. Inc.				
Mores Dec 10	$13.35	13.61	....	2.44
Nat. Westminster Jersey Fd. Mgrs. Ltd				
Sterling Income (z)	53.7	56.0	....	8.01
UK Equity Fd (z)	214.3	228.0	....	2.81
*Intl Bond Fd	95.0	98.0	....	7.07
*Sterling Mngd Asset Fd	543.9	573.0	....	5.00
*Sub. day every Thurs.				
NatWest TrustCor Currency Fund Ltd				
Dollar Class	$38.1615		+0.0242	-
Sterling Class	£26.9408		+0.0045	-
D-Mark Class	DM83.5944		+0.0196	-
Dutch Guilder Class	Dfl83.0236		[illegible]	-
Japanese Yen Class	Y7962.0049		+0.6220	-
Ashburton Realfin Portfolio Ltd				
Ashburton Realfin Ptfolio Ltd £	10.99	11.43	+0.08	-
Ashburton Realfin Ptfolio Ltd $	$10.18	10.56	-0.02	-
Northgate Unit Tst. Mngr. (Jersey) Ltd				
Pacific Fund Dec 10	$33.15	35.25	....	-
Perpetual UT Mngrs (Jersey) Ltd				
Offshore Intl Gwth Fd	$3.7600	3.9958	....	-
Offshore Japanese Gwth Fd	$0.9320	0.9905	....	-
Offshore Am Gwth Fd	$6.3808	6.7809	....	-
Offshore Emerging Cos	$1.0296	1.0[illegible]	....	-
Offshore European Fd	$1.4611	1.5528	....	-
Offshore Global Bond	$0.9600	1.0000	....	-
Offshore Far Eastern Fd	$2.1807	2.3175	....	-
Offshore UK Growth Fd	$1.8969	2.0159	....	-
The Portugal Fund Limited				
Lloyds Bank Trust Company (Channel Islands) Ltd				
NAV Dec 4		34.36	....	-
Royal Bk of Scotland Fd Mngrs (Jersey) Ltd				
Ivory Growth Fund	£14.90	15.12	....	1.43
LFM Defensive Stratgy	£11.39	11.98	....	-

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Prospects for franc deteriorate

THE FRENCH franc remained under considerable pressure against the D-Mark yesterday, as foreign exchange dealers took a more pessimistic view of the prospects of the currency avoiding devaluation, *writes James Blitz.*

The currency markets were again the scene of the thin trading associated with the Christmas period. The dollar, for example, dropped nearly 2 pfennigs against the D-Mark, closing at DM1.5550, as a handful of players had a big impact on the leading exchange rates.

Trading in the D-Mark cross rates remained jittery. The yen, the French franc and the Italian lira were all sold at one time or another against the German currency, and dealers continue to take the view that the Bundesbank will not lower interest rates in a hurry.

By far the biggest problems confronted the franc. Although trading was quiet in the European morning, the French currency came under renewed pressure after France's leading state-owned banks responded to recent rises in money market rates by raising their base rates by 25 basis points.

The currency was also besieged by rumours that the news conference to be held today by Mr Pierre Beregovoy, the French Prime Minister, will be the stage for a dramatic announcement.

Among the subjects rumoured to be on the agenda were the resignation of Mr Beregovoy, the resignation of Mr Michel Sapin, the French Finance Minister, and a rise in French official rates. None of these rumours could be confirmed.

The franc closed unchanged at FFr3.4170 against the D-Mark at the end of European trading. But in US trading, it fell further, to below FFr3.42.

Another factor worrying dealers was that the franc fell to 77 percentage points on the ERM divergence indicator. Under the Basle-Nyborg agreement, it is presumed that a central bank must defend its currency either by intervention or by raising interest rates if it falls below the 75 percentage point level.

Mr Gerard Lyons, chief economist at DKB International in London, believes that there has been a striking deterioration in sentiment over the French currency in recent days. He thinks that the currency remains strong on fundamental economic grounds. "But it will be very difficult for the franc to survive without a devaluation, either in this calendar year or the next," he said.

Mr Christian Dunis, an economist at Chemical Bank in London, believes that France must now tighten monetary policy to show its willingness to defend the currency. "The lesson of sterling's devaluation is that if a central bank does not defend its currency promptly, devaluation is unavoidable," he said.

Yesterday's dollar fall was due to technical factors alone. US industrial production in November rose 0.4 per cent, which was exactly in line with forecasts.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu Dec 16	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	182.194	175.178	-3.85	5.28	62
Spanish Peseta	143.386	139.475	-2.73	4.07	45
Belgian Franc	40.6304	40.2741	-0.88	2.13	36
Dutch Guilder	2.21958	2.20108	-0.83	2.08	35
D-Mark	1.96992	1.95723	-0.64	1.89	33
Danish Krone	7.51410	7.53838	0.32	0.90	-21
Irish Punt	0.735334	0.741529	0.84	0.38	-44
French Franc	6.60683	6.68809	1.23	0.00	-76

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.

£ IN NEW YORK

Dec 16	Latest	Previous Close
£ Spot	1.5760-1.5770	1.5670-1.5680

EXCHANGE CROSS RATES

Dec.16	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr	Pta	Ecu
£	1	1.577	2.453	193.8	8.361	2.203	2.755	2203	2.019	50.55	173.8	1.253
$	0.634	1	1.555	[illegible]	5.316	1.397	1.747	1397	1.280	32.05	110.2	0.795
DM	0.408	0.643	1	79.01	3.417	0.898	1.123	898.1	0.823	20.61	70.85	0.511
YEN	5.160	8.137	12.66	1000	43.25	11.37	14.22	11367	10.42	260.8	896.8	6.465
F Fr.	1.193	1.881	2.926	231.2	10	2.628	3.286	2628	2.408	60.30	207.3	1.495
S Fr.	0.454	0.716	1.113	87.97	3.805	1	1.251	1000	0.916	22.95	78.89	0.569
N Fl.	0.363	0.572	0.890	70.34	3.043	0.800	1	799.6	0.733	18.35	63.09	0.455
Lira	0.454	0.716	1.113	87.97	3.805	1.000	1.251	1000	0.916	22.95	78.89	0.569
C$	0.495	0.781	1.215	95.99	4.152	1.091	1.365	1091	1	25.04	86.08	0.621
B Fr.	1.978	3.120	4.853	383.4	16.58	4.356	5.450	4358	3.994	100	343.8	2.479
Pta	0.575	0.907	1.411	111.5	4.823	1.268	1.585	1268	1.162	29.09	100.	0.721
Ecu	0.798	1.259	1.958	154.7	6.690	1.758	2.199	1758	1.611	40.34	138.7	1

Yen per 1,000 French Fr per 10 Lira per 1,000 Belgian Fr per 100 Peseta per 100

°Floating rate Iran Official rate:£99.70 $66.20

MONEY MARKETS

French rate rise

FRANCE'S national banks raised their main lending rates yesterday, amidst worsening sentiment towards the French franc on financial markets, *writes James Blitz.*

The major state-owned banks said they were raising French base lending rates to 10 per cent from 9.45 per cent. The move is effective from today, and came in the wake of the recent sharp rises in money market rates.

UK clearing bank base lending rate 7 per cent from November 13, 1992

In the German cash market, call money eased slightly to around 8.95 per cent as market activity normalised in the wake of the Bundesbank's securities repurchase tender.

However, sentiment persists that the Bundesbank is unlikely to cut its official rates until well into spring, a factor which will continue to keep pressure on the franc high.

The rise in French base rates followed this week's rise in cash market rates, which commercial banks have found incompatible with the rate structure in the retail sector. French 3-month money climbed again yesterday to 11½ per cent from a previous close of 11⅜ per cent. French franc futures fell back again: the March contract was down 15 basis points to close at 90.40.

Miss Joanne Perez, an economist at Banque Indosuez in Paris, said that the decision to raise base rates reflected general disappointment in France's banking sector that there was no reduction in German official rates last week.

Miss Alison Cottrell, an economist at Midland Global Markets in London, suggested that French monetary policy may have to be tightened even further today. She believes that the Bank of France will be forced to raise the rate in the 5-10 day lending window today in order to support the franc.

One reason for this is that French call money which closed yesterday at around 9½ per cent, is virtually touching the current 5-10 day lending rate of 10 per cent.

Miss Cottrell also says that the Bundesbank has sent strong signals in recent weeks that it will be prepared to defend the franc only if the French central bank plays by the rules of the European exchange rate mechanism. "The message being sent to the French is that if they want the Bundesbank to come into the market and intervene to support the franc, they must first show a willingness to raise rates," she said.

FINANCIAL FUTURES AND OPTIONS

OPTION ON LONG-TERM FRENCH BOND (MATIF)

Strike	Calls January	Calls March	Calls June	Puts January	Puts March	Puts June
110	-	-	-	0.09	0.62	-
111	0.46	1.10	-	0.34	0.98	-
112	0.10	0.64	1.44	-	-	-
113	0.02	0.35	-	-	-	-
114	-	0.17	-	-	-	-
Open Int.	19,782	185,778	27,999	10,788	151,345	18,170

Estimated volume 16,844 † Total Open Interest 413,860

† All Yield & Open Interest figures are for the previous day.

BASE LENDING RATES

	%		%		%
Adam & Company	7	Cyprus Popular Bank	7	Mount Banking	7
Allied Trust Bank	7	Duncan Lawrie	7	NatWestminster	7
AIB Bank	7	Equatorial Bank plc	7	Northern Bank Ltd	7
●Henry Ansbacher	7	Exeter Bank Limited	8	Nykredit Mortgage Bnk	7.5
B & C Merchant Bank	13	Financial & Gen Bank	7	●Rea Brothers	7
Bank of Baroda	7	●Robert Fleming & Co	7	Roxburghe Bank Ltd	9
Banco Bilbao Vizcaya	7	Girobank	7	Royal Bk of Scotland	7
Bank of Cyprus	7	●Guinness Mahon	7	●Smith & Williamson Secs	7
Bank of Ireland	7	Habib Bank AG Zurich	7	Standard Chartered	7
Bank of India	7	●Hambros Bank	7	TSB	7
Bank of Scotland	7	Hampshire Trust Plc	13.5	Unibank plc	7
Barclays Bank	7	Heritable & Gen Inv Bk.	7	●United Bk of Kuwait	7
Brit Bk of Mid East	7	●Hill Samuel	7	Unity Trust Bank Plc	7
●Brown Shipley	7	C. Hoare & Co	7	Western Trust	7
CL Bank Nederland	7	Hongkong & Shanghai	7	Whiteaway Laidlaw	7
Citibank NA	7	Julian Hodge Bank	7	Yorkshire Bank	7
City Merchants Bank	7	●Leopold Joseph & Sons	7		
Clydesdale Bank	7	Lloyds Bank	7		
Co-operative Bank	7	Meghraj Bank Ltd	7		
Coutts & Co	7	McDonnell Douglas Bk.	7		
Credit Lyonnais	7	Midland Bank	7		

● Members of British Merchant Banking & Securities Houses Association

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.8,031 Set by ADAMANT

ACROSS

1 France for example taking steps to promote rural measures (7,7)
10 Jumped ball? I made an excuse (5)
11 Hitting the target on setting off from work (5,4)
12 Tailed off having caught the local lingo (7)
13 Law abiding trade union overturned in somewhat fluid circumstances (7)
14 Doctor left the copper in good order (5)
16 Having the novel feeling of being a big brother? (9)
19 Hitchcock's film bears little relation to the hallucinatory state (9)
20 Snap at the smiles of fortune (5)
22 Engine driver left with black-out on the outside (7)
25 For the meantime the minister, not having the Sun, is all at sea (7)
27 Trying to get through again (9)
28 Coach for those attending (5)
29 Got the wrong idea (14)

DOWN

1 Government oil negotiations provided gateway into Germany's borders (9)
3 Is contained in overtime row (5)
4 I got her out before us – just
5 Dire disaster for Germany to have lost liquidity (5)
6 Black suit for the disco (9)
7 At home but not working – that's the shot! (2-3)
8 Linger around and catch the motorway jinx (7)
9 Upstanding lads carrying an article of clothing (6)
15 House with a bit of red carpet out, perhaps, for a new believer (9)
17 Clothes on the line? (7,2)
18 Raise the spirit level (9)
19 He made good progress in Eng Lit (7)
21 Cover up job in Tokyo (6)
23 Enquires first about the containers (5)
24 Simple, classic way over in New England (5)
26 Let it have a different name

Solution to Puzzle No.8,030

WORLD STOCK MARKETS

INDICES

NEW YORK

DOW JONES	Dec 15	Dec 14	Dec 11	Dec 10	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Industrials	3284.36	3292.20	3304.08	3312.19	3413.21 (1/6)	3136.58 (9/10)	3413.21 (1/6/92)	41.22 (2/7/32)
Home Bonds	103.05	103.21	103.14	103.01	103.21 (14/12)	98.41 (20/3)	103.21 (14/12/92)	54.99 (1/10/81)
Transport	1402.07	1396.83	1411.54	1414.76	1467.68 (20/2)	1204.40 (26/8)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	219.2	218.20	219.33	218.64	225.59 (3/1)	200.74 (8/4)	236.23 (2/1/90)	10.50 (8/4/32)

DJ Indl Day's High 3313.27 (3324.89) Low 3260.32 (3279.50) (Theoretical♦)
Day's High 3295.44 (3316.78) Low 3280.04 (3292.20) (Actual♦)

STANDARD AND POOR'S	Dec 15	Dec 14	Dec 11	Dec 10	1992 HIGH	1992 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	432.57	432.84	433.73	434.64	436.99 (8/12)	394.50 (8/4)	436.99 (8/12/92)	4.40 (1/6/32)
Industrials	505.75	506.71	508.18	509.51	512.85 (8/12)	470.91 (8/4)	512.85 (8/12/92)	3.62 (21/6/32)
Financial	39.69	39.45	39.41	39.67	39.88 (8/12)	32.40 (8/4)	39.88 (8/12/92)	8.64 (1/10/74)
NYSE Composite	238.02	238.16	238.63	238.97	240.24 (8/12)	217.92 (8/4)	240.24 (8/12/92)	4.46 (25/4/42)
Amex Mkt. Value	390.66	392.56	393.38	392.39	418.99 (12/2)	364.85 (9/10)	418.99 (12/2/92)	29.31 (9/12/72)
NASDAQ Composite	650.75	654.73	655.79	658.93	667.12 (8/12)	547.84 (26/6)	667.12 (8/12/92)	54.87 (31/10/72)

	Dec 11	Dec 4	Nov 27	year ago (approx.)
Dow Industrial Div. Yield	3.12	3.13	3.14	3.14

	Dec 9	Dec 2	Nov 25	year ago (approx.)
S & P Industrial div. yield	2.58	2.61	2.62	2.80
S & P Indl P/E ratio	27.10	26.71	26.63	22.79

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
IBM	2,183,600	56¼	-6½
Tuckson	8,780,800	1¼	-1½
Arkla Inc	4,151,700	8½	+¼
Phillip Morris	3,177,500	77¼	-1½
Gerber	2,621,800	29⅜	-5½
Boeing	2,145,800	34⅞	+⅛
RJR Nabisco	2,141,400	8⅞	-⅛
Nat Semi	2,127,100	11⅛	+⅛
Coca Cola	2,051,000	40⅝	+1¼
Ford Motor	1,959,200	41⅜	-⅞

TRADING ACTIVITY

† Volume (Millions)	Dec 15	Dec 14	Dec 11
New York SE	225.880	183.510	164.450
Amex	13.710	16.132	13.811
NASDAQ	248.928	194.499	213.167
NYSE			
Issues Traded	2,417	2,400	2,374
Rises	835	821	840
Falls	956	984	905
Unchanged	626	595	629
New Highs	42	50	37
New Lows	34	29	14

CANADA

TORONTO	Dec 15	Dec 14	Dec 11	Dec 10	1992 HIGH	1992 LOW
Metals & Minerals	2760.37	2772.92	2789.81	2773.87	3238.87 (16/1)	2529.91 (17/11)
Composite	3264.61	3262.00	3267.50	3270.24	3666.00 (16/1)	3195.40 (14/10)
MONTREAL Ptfolio	1726.73	1723.51	1726.33	1729.87	1937.59 (16/1)	1663.16 (14/10)

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable. ♦ The DJ Indl. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's).

WORLD					
M.S. Capital Intl (1/1/70) (S)	497.7	496.4	495.4	495.9	542.10
Euro Top-100 (26/6/90)	837.93	838.69	841.96	844.53	976.55

**Saturday December 12: Taiwan Weighted Price 3,742.61, Korea Comp Ex 647.28
♥ Subject to official recalculation.

Base values of all indices are 100 except: Austria Traded, BEL20, HEX Gen., MIB Gen., CAC... Overall and DAX – 1,000, JSE Gold – 255.7, JSE 26 Industrials – 264.3 and Australia All Ordinary...
(c) Closed. (u) Unavailable

TOKYO - Most Active Stocks
Wednesday, December 16, 1992

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Kawasaki Steel	6.2m	284	-1	Toshiba Corp	2.7m	625	-9
Mitsui Min & Sml	4.2m	496	-13	Nagase & Co	2.5m	745	+40
NPN Steel Corp	4.1m	284	+3	Mitsubishi Est	2.6m	935	+30
Keisei Electric	3.3m	827	+7	Nishimatsu Con	2.4m	1,080	+10
Mitsui Foodosan	2.0m	1,030	+30	Tokio M&F Ins	2.1m	1,180	

3 pm December 16

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1992 High	1992 Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
15⅞	11	AAR Corp	0.48	4.0	19	686	12⅛	11⅞	11⅞	-⅛
28½	16	A L Labs A x	0.18	0.8	142	84	23⅛	22¾	22⅞	-¼
68¾	52⅞	AMP Inc	1.52	2.8	202	635	55¾	55	55	-½
80¼	54⅞	AMR				122875	61¼	60½	60½	-½
2⅛	1⅞	ARX			12	65	1⅞	1⅞	1⅞	
63½	30½	ASA	2.00	6.1	21	653	32⅞	31⅞	32⅞	+1⅛
34¼	26⅞	Abbott Lab	0.60	1.9	22	6297	31⅞	31¼	31¼	-¼
13⅞	10⅞	AbitibiI Pr	0.50	4.5	6	2	11⅛	11⅛	11⅛	
11⅝	10⅛	ACM Gvt In x	0.94	8.6		246	11	10⅞	10⅞	-⅛
10⅜	9⅛	ACM GvOpp x	0.73	7.8		86	9½	9⅜	9⅜	
9⅞	8½	ACM Gvt Sp	0.91	10.4		582	8⅞	8¾	8¾	-⅛
11⅞	9⅞	ACM Gvt Se	1.01	9.6		107	10⅝	10½	10½	-⅛
10⅝	8⅝	ACM Man x	0.96	9.6		274	10	9⅞	10	
12⅞	8⅝	ACM Mangd x	0.93	10.6		388	8⅞	8¾	8¾	-⅛
11¾	4¾	Acme Cleve	0.40	4.8	15	25	8¼	8⅛	8¼	
6½	3¾	Acme Elect			110	13	5⅝	5½	5½	
33¼	14⅞	Acuson			12	873	16⅝	16⅜	16⅜	-¼
21	18⅛	Adams Expr	1.62	8.2	1	43	20	19⅞	19⅞	-⅛
49⅛	29½	Ad Micro	3.00	6.8		392	44¼	43½	44¼	+½
21½	7½	Ad Micro P	3.00	18.2	5	1091	16⅝	15⅞	16½	+⅛
9⅛	4⅞	Advest Grp	0.16	2.7	12	18	5⅞	5⅞	5⅞	
42⅞	33	Aegon ADR	1.36	3.3	7	21	41⅝	41¼	41¼	-½
48⅝	38	Aetna Lf	2.76	5.9	13	1243	47½	46⅞	47	-¼
12⅞	8⅞	AEll A	0.24	2.1	15	437	11⅞	11⅛	11¼	
34	24	Aflac	0.44	1.3	15	679	33¼	33⅛	33⅛	-¼
19⅜	13	Ahmanson	0.88	5.5	72	721	16¼	16	16	-¼
22½	4	Aileen Inc			14	619	8⅞	8⅛	8¼	-⅝
49½	38½	Air Pr Chm	0.88	1.9	18	751	46⅞	46	46	-⅛
29⅞	12½	Airbne Frt	0.30	1.7	100	416	18⅞	18	18⅛	+⅛
21½	11¼	Airgas Inc			28	120	19¼	18½	18½	-¾
12⅞	8⅛	Airlease	1.60	14.2	8	28	11¼	11	11¼	+¼
104	99	AlaPw8.16	8.16	8.0		2	101	101	101½	
105	100¼	Alab 8.28C	8.28	8.0		5	104	103¼	103¼	+¾

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

NYSE COMPOSITE PRICES

Continued from previous page

Price data supplied by Telekurs.

Yearly highs and lows reflect the period from Jan 1, excluding the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE PRICES

3 pm December 16

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
Pegasus G	0.10	31	591	14⅞	14⅛	14⅛	+⅛
Perini	0.80	16	338	18	16¼	16¼	-1⅞
Pet HMP x	1.14	10	4	15½	15½	15⅝	
Phil LD x	0.25	14	1367	34¼	33¾	34¼	+½
[illegible] A x	1.10	17	5	33¼	33¼	33⅛	-⅛
Ply Gem	0.12	23	69	11⅞	11⅝	11¾	+⅛
PMC	0.66	16	77	12¾	12½	12⅝	+⅛
PresidioA	0.10	0	589	⅞	13/16	13/16	-1/16
Price Com		0	2	1/16	1/16	1/16	
RB&W Cp		1	17	2¾	2⅝	2⅝	-¼
RiedelEnv		9	81	6¼	5¾	5⅞	-½
SJW Corp	2.13	6	7	35½	35⅜	35½	+¼
SthetUnion		46	24	14⅞	14⅞	14⅞	
Sterl El	0.04	16	174	6⅞	6	6⅛	-⅞
TII Ind		18	70	2⅛	2	2 1/16	+1/16
Tab Prods	0.40	39	7	12¼	12⅛	12⅛	-⅛
TeleData x	0.32	52	268	39¾	39½	39⅝	-⅛
Thermedics		134	57	12⅛	12	12⅛	
Thermoelne		32	176	u34¾	34	34⅝	+⅞
Total Pet	0.40	15	140	5⅞	5¾	5⅞	
TownCntry		0	11	2 1/16	2	2 1/16	+1/16
Tubos Mex		6	57	5½	5⅜	5½	
UtdFoodsA		4	7	1 11/16	1 11/16	1 11/16	
UtdFoodsB	0.20	4	24	1 13/16	1¾	1¾	-⅛
UnivPtnts		45	13	10⅝	10½	10½	-⅛
US Cellul		91	18	21⅛	20¾	21	-¼
WangLab C		0	8	1½	1⅜	1⅜	
WangLab B		0	1748	7/16	⅜	⅜	
Westerld		112	566	6⅝	6⅝	6⅝	-⅛
Hasbro	0.20	18	1415	33	32¾	32¾	
Health Ch		16	31	1⅞	1⅞	1⅞	-1/16
Odetics A		79	z100	6¼	6¼	6⅜	
Oriolon	0.32	31	96	37⅜	37½	37½	-⅛
Xytronix		6	67	7¼	6⅞	7	

NASDAQ NATIONAL MARKET

3 pm December 16

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
York Rsch		6	336	6¼	6⅜	6⅝	-⅛
ZionsUtah	1.44	11	12	72	71¼	71¼	-¼

FINANCIAL TIMES Thursday December 17 1992

AMERICA

Blue chips buffer Dow as IBM drops again

Wall Street

US share prices were mixed yesterday morning, in spite of a second day of strong selling of IBM, one of the market's biggest stocks, *writes Karen Zagor in New York.*

At 1 pm, the Dow Jones Industrial Average was 5.67 lower at 3,278.69 in volume of more than 144m shares, with advancing issues leading declines by 864 to 813.

The mixed tone of the market was reflected in other market indices, with the Standard & Poor's 500 up 0.68 at 433.25, the New York Stock Exchange composite adding 0.14 to 238.16 and the American Exchange off 0.86 at 389.80. The Nasdaq composite firmed 0.33 to 651.08.

There was little reaction to the day's economic news, that housing starts were 1.5 per cent higher in November. Although the gain was stronger than expected it was consistent with a picture of a gradually improving US economy.

The October report was revised to show a gain of 0.2 per cent from a previously reported decline of 1.1 per cent.

IBM continued its downward spiral, tumbling $4¼ to $51⅞ after dropping $6¾ a day earlier. Investors started to flee from IBM after the company said on Tuesday that it was cutting 25,000 jobs and taking a $6bn restructuring charge.

Gains in other stocks helped buffer the Dow from the impact of IBM's decline. Among active blue chip issues, American Express rose $½ to $24⅞, Boeing advanced $½ to $35⅜ and General Motors firmed $½ to $33.

In the technology sector, Compaq was quoted at $42⅞, regaining the $⅝ it had lost a day earlier. Motorola added $2⅛ to $102⅞, but Digital Equipment lost $⅝ to $32⅝.

Shares in American Cyanamid fell $2⅝ to $55¾ on news that it had agreed to buy a 53.5 per cent stake in Immunex by contributing $350m towards the creation of a new biopharmaceutical company. Shares in Immunex rose 42 cents to $47¼ in Nasdaq trading.

Safety-Kleen, a hazardous waste recycler, plunged $6⅛ to $22¾ on disappointing fourth quarter earnings projections.

The company said that it *expects to post profits of* $12.5m in the quarter after a charge of $1.3m. In the 1991 fourth quarter, Safety-Kleen earned $13.9m.

In contrast, shares in Intel climbed $5⅝ to $83, above its previous 52-week high of $80½, on strong fourth quarter earnings predictions. The integrated-circuit maker expects its fourth quarter earnings to be well above analysts' expectations, thanks to high demand for its Intel486 microprocessors.

Canada

TORONTO was buoyed at mid-session by strong performances from financial institutions following another cut in interest rates.

The TSE-300 index was 22.29 stronger at 3,286.90 in volume of some 23.8m shares. Advances led declines by 297 to 231 with 273 unchanged.

In the financial sector, Bank of Nova Scotia gained C$⅝ to C$23⅝ and Toronto Dominion rose C$¾ to C$16¼.

The gold-silver index was up 111 points to 5,257.99, as active February gold on the COMEX rose by US$2.70 an ounce.

Bombay suffers as violence hits the city

Political problems weigh on the equity markets, write **R C Murthy and Stefan Wagstyl**

Bombay has this week slowly limped back to commercial life, following the violence which hit the *city after the destruction of the* mosque in Ayodhya. But it will take much longer to restore confidence in the nervous financial markets.

Shares on the Bombay Stock Exchange, which was closed for three days after the mosque's *demolition unleashed* a nationwide wave of unrest, have fallen since trading resumed to 8.8 per cent below pre-crisis levels. Yesterday the exchange's index of 30 leading stocks dropped 102 points to 2,374.72, pushed down by news of the imposition of central government rule in three states. The stock exchange authorities have tried to slow the decline by tightening limits on trading volumes, but with little effect on sentiment.

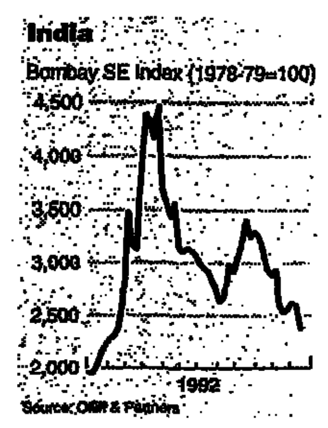
Brokers said yesterday that the uncertainty would persist until Prime Minister P V Narasimha Rao restored political stability. Doubts about the future course of the economy are expected to cloud the financial outlook until the government announces the next *phase of its economic reform* programme in the budget due in February.

Financial companies are also still suffering from the effect of the Rs35bn ($1.35bn) securities market scandal, which has depressed activity in almost all *markets, including stocks.*

Mr Hemendra Kothari, chairman of DSP Financial and Investment Services, a leading broker, said: "I personally feel the political situation will clear sooner rather than later, though how long it will take is anybody's guess."

Mr Kothari, a former stock exchange president, added that stocks could fall further as investors were waiting for the budget to get a correct picture of economic reforms, although mid-January might be a good time for bargain hunting.

The crisis has severely dampened activity in the burgeoning market in primary



issues. Hindustan Aluminium Company, a leading aluminium maker, last week postponed the pricing of a planned $100m euro-equity issue. Investment bankers in Bombay said the issue would probably now be postponed until after the budget is published on February 28. Other proposed issues, including Essar Gujarat, which is raising funds for a sponge iron plant, could also be delayed, they said.

Indian brokers have also become wary of marketing local share issues for fear that *the decline in share prices is* squeezing investors' resources. Yet the market is not entirely dead: private individuals have, for example, flocked to buy stock in Wockhardt, a Bombay pharmaceutical maker.

The political upheaval over *Ayodhya will delay invest*ments by foreign fund managers. Foreigners this autumn won permission to invest directly in India's equity market, albeit on strict conditions. But so far only eight out of 19 applicants have been approved. Many of the remaining *11 insti*tutions are fund management groups linked to security broking companies, and have been held up by delays over deciding the terms of entry for foreign securities companies.

One foreign banker in Delhi said *that even before the Ayod*hya crisis foreigners had been in no hurry to invest in India.

Apart from the Ayodhya crisis and the financial scandal, foreigners are concerned about the relatively high valuation of Indian stocks. The top 30 *shares* trade on price/earnings multiples of about 32.

As a result, Indian brokers believe that the country will see an *inflow of portfolio* investment funds of a bare $100m in the financial year to March, compared with an *original unofficial target of $1bn.* Similarly, Indian companies are now expected to raise only about $500m to $600m in Euro-equity issues, just over half the $1bn originally expected.

Meanwhile, the stock exchange authorities are concerned *that the political crisis* may yet bring further trouble on the broking community by driving some broking firms into financial collapse. The industry, which enjoyed an unprecedented boom until April, has since seen prices and *trading volumes fall* sharply, causing financial problems at many small broking concerns.

ASIA PACIFIC

Nikkei declines in line with futures market

Tokyo

A LOWER futures market prompted profit-taking by dealers and investment trusts, wiping out share price gains from a morning rally, *writes Emiko Terazono in Tokyo.*

The Nikkei average was finally down 212.03 at 17,268.71 after a day's high of 17,601.20 *and low of 17,266.40. The index* was bolstered in the morning by reports of tax measures to reinvigorate the real estate sector, and depressed by selling in the late afternoon.

Volume rose to 250m shares from 213m. Declines led advances by 639 to 351, with 149 issues unchanged, while the Topix index of all first section stocks lost 8.57 to 1,317.33. In London the ISE/Nikkei 50 index firmed 2.99 to 1,069.91.

Most of the activity was futures led yesterday, hence the predominance in trading of investment trusts and dealers. Reports that the ruling Liberal Democratic Party had prepared a final proposal on reviving tax breaks for those who renew housing, and that it had reviewed the possible abolition of the land tax system, excited some traders, but most investors remained on the sidelines.

Brokers actively traded issues with large latent assets on rumours that financial *authorities are minded to allow* banks and companies to revalue assets and count any surplus as capital.

Most analysts were sceptical over the implementation of such book-keeping measures. Mr Alex Kinmont, an analyst at Morgan Stanley, said: "They would only be exchanging one fictional value for another," referring to the lack of qualified land surveyors.

Nippon Express, which was initially bought on the asset revaluation theme, lost Y4 on balance at Y760, and Nippon Telegraph and Telephone declined Y5,000 to Y549,000. Keisei Electric Railway appreciated Y7 to Y827.

Real estate companies rose on news of possible land tax reforms. Mitsui Fudosan put on Y30 to Y1,030 and Mitsubishi Estate Y30 to Y935.

Further rumours of a takeover by Harrods pushed Yokohama Matsuzakaya up Y99 to Y639, the largest percentage gain of the day. Nagase, a trading company, advanced Y40 to Y745 on hopes of brisk sales of its antibacterial cloth.

High-technology issues lost ground on profit-taking by investment trusts. Hitachi slipped Y2 to Y743 and Fujitsu retreated Y17 to Y557. However, Hitachi Electronics climbed Y40 to Y1,420 on firm *earnings projections.*

In Osaka, the OSE average receded 54.78 to 18,839.62. Large lot cross-trading, or realising profits on long-term holdings without changing underlying portfolios, boosted volume to 117.9m shares, against 21.1m. Nintendo, the video game maker, fell Y100 to Y11,000 on profit-taking.

Roundup

PACIFIC Rim markets continued to be mixed, with domestic issues predominant.

HONG KONG strengthened in the afternoon session as some confidence returned to the market following recent nervousness over political relations with China. The Hang Seng index rose 100.15, or 1.9 per cent, to 5,415.96 in turnover of HK$2.4bn.

Hang Seng Bank and Bank of East Asia gained as some investors switched out of HSBC Holdings on reports that it might have to make new debt provisions. Hang Seng Bank was up HK$2.25 to HK$51.50 while Bank of East Asia gained HK$1.50 to HK$33. HSBC closed unchanged at HK$55.50, after a day's low of HK$54.50.

SEOUL advanced slightly *with interest in Daewoo group* stocks on news that Daewoo Corp had won a $280m construction order from Malaysia. The composite index rose 3.88 to 654.09 and Daewoo Corp added Won500 at Won11,700.

TAIWAN remained weak in cautious trading ahead of Saturday's parliamentary elections. The weighted index closed 13.34 lower at 3,674.92 in turnover down to T$6.6bn from T$7.2bn.

MANILA was helped higher by the recovery of Philippine Long Distance Telephone in New York. The composite index improved 39.42 to 1,222.91 in combined turnover of 679.5m pesos.

PLDT rallied 30 pesos to 840 pesos, while Philippine National Bank advanced 14 pesos to 220 pesos.

SINGAPORE's Straits Times Industrial index moved ahead 14.52 to 1,456.62 in turnover of some S$252m.

Cycle and Carriage, up 10 cents at S$6.50, led the market: *Jardine Strategic Holdings, of* Hong Kong, said it had bought a 16 per cent stake in the car distributor. In KUALA LUMPUR the composite index ended 4.01 up at 632.89 with Multi-Purpose gaining 2 cents at M$2.21.

AUSTRALIA weakened on profit-taking, the All Ordinaries index closing 12.6 off at 1,497.0 in turnover of A$260.15m.

News Corp was among the day's biggest losers, following a downgrading by a US broker, and the shares ended 82 cents cheaper at A$29.

Banks remained under pressure, with National Australia falling 17 cents to A$7.53, ANZ 5 cents to A$2.68 and Westpac 3 cents to A$3.03.

NEW ZEALAND was steady as Fletcher Challenge regained support after falling steeply on Tuesday. The NZSE-40 index closed 0.79 firmer at 1,521.18 with FCL up 5 cents at NZ$2.31. Among other leading stocks, Carter Holt Harvey was *down 2 cents at NZ$2.78. Good*man Fielder eased 2 cents to NZ$2.13 and Telecom lost a cent to NZ$2.29.

BANGKOK recovered in the last minutes of trading to finish the day with small gains. The SET index was a net 1.10 ahead at 840.40 and rises led declines by 111 to 86. Turnover was thin at Bt1.2bn.

EUROPE

Frankfurt falls back as VW warns of big losses

Individual stocks featured in senior bourses yesterday, *writes Our Markets Staff.*

FRANKFURT continued its painful revision of carmakers' prospective earnings and dividends, and current market ratings. Volkswagen fell DM9 to DM235.50, and Daimler DM6.40 to DM506.60 as the DAX index closed a relatively modest 9.17 lower at 1,472.07.

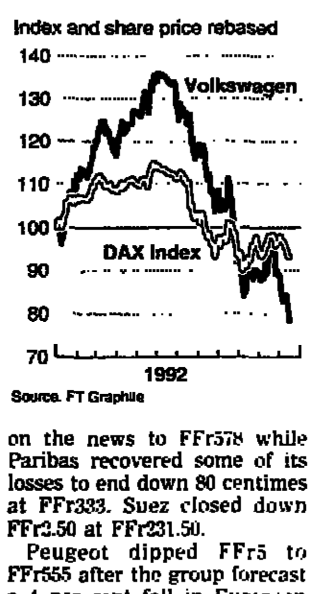
Turnover eased to DM3.5bn from DM3.7m, VW trading in DM225m after DM125m as it talked of substantial fourth quarter losses, effectively confirmed that it will cut this year's dividend and indicated that 1993 could be a good deal worse.

Mr Bob Barber, who heads the automotive and capital goods team at James Capel, said that he now expected earnings per share from VW of only DM9 against DM36 in 1991, and forecast a DM400m loss for 1993, with the dividend falling from DM11, through *DM6 for this year to DM4.*

PARIS weakened late in the session on news that Société Générale was to increase its base rate to 10 per cent from 9.45 per cent from today. The bank said that the increase followed the recent rise in money market rates because of the franc's weakness in the last few weeks.

The CAC-40 index closed down 8.10 at 1,736.69, off the day's high of 1,757.45, in turnover of some FFr2.7bn.

Société Générale rose FFr5



on the news to FFr578 while Paribas recovered some of its losses to end down 80 centimes at FFr333. Suez closed down FFr2.50 at FFr231.50.

Peugeot dipped FFr5 to FFr555 after the group forecast a 4 per cent fall in European car sales, and Volkswagen warned of larger-than-expected fourth quarter losses.

MILAN reversed weakness earlier this week in privatisation stocks, BCI recovering L145 to L4,179, Credito Italiano L24 to L2,775 and Nuovo Pignone L250 to L4,520, the last two strengthening further to L2,875 and L4,620 respectively on the kerb.

The Comit index, however, rose only 2.07 to 496.32 amid political nervousness generated by the Craxi affair and the ruling parties' rebuff in local elections.

Rinascente soared, closing with a session gain of L685 or 11 per cent to L7,025, and to L7,200 after hours. The Fiat group retailer has been at centre of speculation about a possible sale for some time.

ZURICH's SMI index rose nearly 1 per cent, closing 18.8 higher at 2,023.9 in moderate volume. Dealers said that window-dressing of year-end accounts by some brokers was behind some of the day's late buying.

BRUSSELS saw some gains in the financial sector with SGB putting on BFr15 to BFr1,810. The Bel-20 index gained 5.22 to 1,106.35. Petrofina, which suffered a 6 per cent fall on Tuesday after announcing that it would cut its dividend 50 per cent, fell a further BFr50 to BFr7,440. Solvay bucked the trend with a gain of BFr150 to BFr11,200.

STOCKHOLM saw Astra weakening further following a disappointing analysts' meeting earlier in the week. The Affärsvärlden index shed 14.35 to 864.75 with Astra free shares slipping SKr21 to SKr711.

OSLO continued to weaken as high interest rates depressed sentiment. The all share index fell 4.57 to 372.08 in turnover of NKr202m. Among actives Kvaerner A shares lost NKr1 to NKr147, Bergesen A fell NKr3 to NKr68, and Elkem slid NKr3 to NKr28.

AMSTERDAM's CBS Tendency index closed 0.4 lower at 101.1. ING put on 50 cents to Fl 53.50 with overseas interest being seen. Elsewhere in the financial sector Aegon fell 80 cents to Fl 72.70 and Amev lost 30 cents to Fl 58.30.

VIENNA lost ground after Creditanstalt announced that it planned to cut its 1992 dividend to 6 per cent from 15 per cent in 1991. The ATX index closed down 13.04 or 1.7 per cent at 738.77 while Creditanstalt preferred shares fell Sch14 to Sch121.

FT-SE Actuaries Share Indices

December 16 — THE EUROPEAN SERIES

Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1032.57	1033.48	1033.41	1035.16	1035.66	1036.52	[illegible]	[illegible]
FT-SE Eurotrack 200	1111.83	1111.37	1112.53	1113.25	1114.79	1114.78	[illegible]	[illegible]

	Dec 15	Dec 14	Dec 11	Dec 10	Dec 9
FT-SE Eurotrack 100	1038.14	1041.18	1044.03	1049.63	[illegible]
FT-SE Eurotrack 200	1115.23	1116.33	1117.72	[illegible]	[illegible]

Base value 1000 (26/10/90) Highday: 100 - 1038.94 200 - [illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of lines of stock	TUESDAY DECEMBER 15 1992: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY DECEMBER 14 1992: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1992 High	1992 Low	Year ago (approx)
Australia (68)	121.79	-0.1	115.16	95.50	[illegible]	[illegible]	[illegible]	[illegible]	121.86	115.44	95.24	99.34	118.09	153.68	108.18	149.23
Austria (19)	139.65	+0.5	132.24	109.67	[illegible]	[illegible]	[illegible]	2.48	139.20	131.87	108.80	113.48	113.73	186.70	137.63	164.10
Belgium (42)	133.99	1.3	126.69	105.06	[illegible]	[illegible]	[illegible]	[illegible]	135.77	128.62	106.11	110.68	108.32	152.27	133.99	136.37
Canada (113)	113.01	0.2	106.96	88.61	[illegible]	[illegible]	[illegible]	3.74	113.20	107.24	88.47	92.27	104.47	142.12	111.36	130.70
Denmark (34)	199.10	[illegible]	188.26	[illegible]	[illegible]	[illegible]	[illegible]	1.67	203.14	192.44	158.78	165.60	166.88	273.94	181.70	257.41
Finland (15)	73.97	-0.2	69.94	[illegible]	[illegible]	[illegible]	[illegible]	1.79	74.11	70.20	57.92	60.41	79.08	89.80	52.84	73.32
France (99)	144.05	+0.1	136.20	112.95	[illegible]	[illegible]	[illegible]	3.72	143.96	136.38	112.51	117.35	120.76	168.75	136.93	140.38
Germany (64)	103.51	+0.7	97.87	[illegible]	[illegible]	[illegible]	[illegible]	2.69	102.75	97.34	80.32	83.76	83.76	129.69	102.51	111.32
Hong Kong (53)	212.72	+0.7	201.14	[illegible]	[illegible]	[illegible]	[illegible]	4.26	211.26	200.14	165.12	172.23	209.98	262.28	176.36	172.21
Ireland (16)	136.78	+1.8	129.33	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	134.32	127.25	104.99	109.50	112.16	173.71	122.98	163.81
Italy (77)	51.37	-2.9	48.57	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	52.89	50.11	41.34	43.12	55.01	80.86	47.47	72.14
Japan (472)	107.13	+0.5	101.30	[illegible]	[illegible]	[illegible]	[illegible]	1.00	106.65	101.03	83.36	86.95	83.36	140.95	87.27	131.58
Malaysia (69)	259.98	-1.7	245.82	203.65	[illegible]	[illegible]	[illegible]	2.56	264.36	250.44	206.62	215.50	260.39	282.42	212.49	208.18
Mexico (18)	1611.28	-0.3	1523.51	1263.47	[illegible]	[illegible]	[illegible]	1.09	1615.95	1530.86	1263.05	1317.32	5506.22	1789.77	1185.84	1300.17
Netherland (25)	154.74	-0.3	146.31	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	155.14	146.97	121.26	126.47	124.91	169.70	147.88	147.05
New Zealand (13)	41.82	-0.9	39.55	32.80	[illegible]	[illegible]	[illegible]	5.17	42.22	40.00	33.00	34.42	43.46	48.52	37.39	44.59
Norway (22)	143.07	-0.0	135.27	112.19	[illegible]	[illegible]	[illegible]	1.89	143.11	135.57	111.86	116.66	131.31	182.95	128.05	174.58
Singapore (38)	201.62	-1.0	190.64	155.10	[illegible]	[illegible]	[illegible]	2.17	203.60	192.88	159.14	165.97	153.69	229.63	179.65	210.89
South Africa (60)	147.18	-1.1	139.17	115.41	[illegible]	[illegible]	[illegible]	[illegible]	148.84	141.00	116.33	121.33	156.80	263.60	134.21	235.22
Spain (48)	120.73	+0.3	114.15	94.67	[illegible]	[illegible]	[illegible]	5.90	120.41	114.07	94.12	98.16	101.94	161.72	107.10	145.74
Sweden (31)	166.34	-0.7	157.28	130.44	[illegible]	[illegible]	[illegible]	2.36	167.55	158.73	130.96	136.59	167.49	200.28	149.69	169.60
Switzerland (60)	112.64	-0.7	106.50	[illegible]	[illegible]	[illegible]	[illegible]	2.17	113.48	107.50	88.70	92.52	99.08	122.37	95.99	95.42
United Kingdom (227)	170.13	+0.2	160.87	[illegible]	[illegible]	[illegible]	[illegible]	4.59	169.87	160.93	132.76	138.47	160.93	200.07	161.86	176.39
USA (522)	176.64	-0.1	167.02	138.52	[illegible]	[illegible]	[illegible]	2.89	176.75	167.45	138.16	144.10	176.75	178.34	160.92	155.87
Europe (779)	134.93	-0.1	127.58	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	135.05	127.94	105.56	110.10	119.79	156.88	131.31	140.17
Nordic (102)	152.28	-1.0	143.99	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	153.86	145.78	120.27	125.44	138.48	188.52	141.24	175.28
Pacific Basin (713)	111.18	+0.4	105.12	[illegible]	[illegible]	[illegible]	[illegible]	1.35	110.76	104.92	86.57	90.29	88.44	141.97	93.70	132.97
Euro-Pacific (1492)	120.78	+0.2	114.21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	120.58	114.23	94.24	98.30	101.08	145.21	113.80	136.17
North America (635)	172.70	-0.1	163.29	[illegible]	[illegible]	[illegible]	[illegible]	2.90	172.82	163.72	135.09	140.91	171.86	174.38	158.70	154.25
Europe Ex. UK (552)	113.89	-0.3	107.69	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	114.21	108.19	89.28	93.12	97.46	132.98	111.33	118.53
Pacific Ex. Japan (241)	150.88	-0.1	142.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	151.09	143.14	118.11	123.18	139.54	175.31	146.06	146.82
World Ex. US (1683)	121.73	+0.1	115.10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	121.57	115.17	95.03	99.11	103.11	148.91	115.99	137.74
World Ex. UK (1978)	136.37	+0.0	128.94	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	136.32	129.14	106.56	111.14	122.24	150.58	127.21	138.82
World Ex. So. Af. (2145)	139.36	+0.1	131.77	109.29	[illegible]	[illegible]	[illegible]	2.69	139.28	131.95	108.87	113.55	125.37	153.05	130.04	142.23
World Ex. Japan (1733)	157.62	-0.1	149.03	[illegible]	[illegible]	[illegible]	[illegible]	3.29	157.76	149.46	123.32	128.63	150.28	165.40	151.93	150.14
The World Index (2205)	139.30	+0.0	131.72	109.24	[illegible]	[illegible]	[illegible]	[illegible]	139.24	131.90	108.83	113.51	125.68	153.70	130.86	142.82

Constituent change with effect 17/12/92: Deletion: [illegible]. Latest prices were unavailable for this edition.